The Reconstruction Finance Corporation: Preferred Stock Purchase Program

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Abstract

By March 1933, the Reconstruction Finance Corporation's (RFC)'s early collateralized lending programs had failed to prevent the recurrence of bank runs and panic in financial markets. These conditions forced newly elected President Franklin Delano Roosevelt to call for a nationwide bank holiday from March 6 to March 9. On the final day of the holiday came the Emergency Banking Act (EBA), which gave the RFC the power to make investments via preferred equity of distressed institutions. Under the EBA, the RFC could subscribe to and make loans on cumulative non-assessable preferred stock issued by state and national banks and trust companies. Unlike most bank and trust company equity at the time, the shares were preferred (senior to common shares), which protected the government's investment, and non-assessable, meaning the RFC would have no further liability if the companies experienced losses. Subsequent amendments and additions in March and June would expand this authority to insurance companies, and to more than preferred stock for previously ineligible state banks. Any institution could file an application to one of the RFC's 31 field offices. The RFC required more impaired institutions to raise additional capital or impose haircuts on existing creditors. Aid offices sought to maximize profits and had a fair bit of autonomy. Larger requests had to be approved by the main office in Washington D.C. and by the Secretary of the Treasury. Dividends were normally just below market rates and were lowered throughout the life of the program. Widespread participation in the program did not occur until Chairman Jesse Jones aggressively communicated the necessity of the program to bankers in September 1933 and Roosevelt explained in October that federal deposit insurance would only be eligible to solvent institutions when it began on January 1, 1934. The RFC ultimately injected about $1.17 billion of capital into nearly 7,400 institutions, representing nearly one-third of total bank capital in the system at its peak. Unlike the earlier loan assistance, it was seen as a resounding success and was widely credited with stabilizing the financial system.

Keywords: Reconstruction Finance Corporation, RFC, Preferred Stock, Great Depression, Jesse Jones, United States, Capital Injections, Collateralized Loans

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The Reconstruction Finance Corporation: Preferred Stock Purchase Program

At a Glance

Purpose: To stem bank runs and promote confidence by providing capital to state and national banks, trusts, and insurance companies.	
Announcement Date	March 9, 1933
Operational Date	March 9, 1933
Sunset Date	Not defined.
Program Size	Unlimited. Not defined.
Usage	$1.17 billion for 7,389 state and national banks and trusts.
Outcomes	At peak, owned capital in half of the banks in the U.S., and one-third of total bank capital in system.
Key Features	Restrictions on executive compensation and common stock dividends, mandatory pref. stock retirement fund.

The RFC's initial response to the financial crisis was one of large-scale, collateralized lending to a variety of firms, including state and national banks. However, high interest rates, strict collateralization requirements, and short terms caused the government to rethink its approach. By March 1933, conditions had worsened enough that President Franklin Delano Roosevelt called for a nationwide bank holiday just after his inauguration from March 6 to March 9.

On the final day of the holiday came the Emergency Banking Act (EBA), which gave the RFC the power to subscribe to and make loans on cumulative non-assessable preferred stock issued by state and national banks and trust companies. Until that time, banks and trust companies issued equity predominantly in the form of common stock that bore double liability: shareholders could be called on to provide capital in the case of a shortfall. The preferred shares authorized by the EBA were senior to common shares, protecting the government's investment, carried no double liability.

An amendment to the EBA, passed on March 24, 1933 gave the Corporation the authority to purchase debt-like capital notes and debentures from state banks and trusts that were not legally allowed to issue non-assessable preferred shares. On June 10, Congress gave the RFC the authority to assist insurance companies, subject to a $50 million limit. While the RFC required more impaired institutions to raise additional capital or haircut their own investors to protect their investment, any institution was able to apply for aid. The Corporation solicited bids from urban and rural, large and small banks alike to destigmatize the usage of the program. Additional protections included restrictions on common stock dividends and executive compensation, seniority to all other equity, and having recipients set aside a portion of their profits for the retirement of the preferred stock.

The RFC had a network of 32 field offices located in major cities throughout the U.S, with loan officers typically making the bulk of aid decisions. The RFC ran these offices with profit maximization as the primary goal and the offices had a fair bit of autonomy to achieve this. Despite this, the main office in Washington, D.C. and the Secretary of the Treasury had to approve larger requests. Dividends were normally just below market rates, but still above those on short-term business loans, and were lowered throughout the life of the program.

Participation was slow for the first six months but increased in the fall of 1933 after Chairman Jesse Jones aggressively communicated the necessity of the program to private bankers. and the FDIC introduced federal deposit insurance at the beginning of 1934. The RFC ultimately injected about $1.17 billion of capital into nearly 7,400 institutions, representing nearly one-third of total bank capital in the system at its peak.

Summary Evaluation

While the analysis of the RFC's lending activities prior to the EBA were largely negative, the Preferred Stock Purchase Program saw very positive evaluation, though some argued that the Corporation's assistance was too extensive. Scholars credit the RFC's preferred stock assistance, in conjunction with the banking holiday preceding it, with the immediate stabilization of the financial sector and slight increases in lending activity. Jesse Jones, especially, received mostly positive feedback both in his role as administrator and as a powerful bureaucrat who guided the RFC to a profit every year that he was the chair.

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I. Overview

Background

The Great Depression began in the fall of 1929, precipitated by a severe stock market crash in October and a series of banking crises, first throughout various regions of the United States before spreading nationally (Richardson 2013, Engemann 2013). By the fall of 1931, a serious financial crisis was already in full swing (Engemann 2013). Great Britain abandoned the gold standard in September of that year after several failed efforts to prop it up (Olson 1972 - pp. 1104, Crabbe 1989 - pp. 433 - 434). In the aftermath, Americans were afraid that the U.S. government might do the same and converted much of their dollar assets to gold (Jones 1951 – pp. 15). As panic began to spread, depositors rapidly withdrew their funds from banks that they no longer trusted, and an air of "complete demoralization" swept through financial markets (Olson 1972 - pp. 1104). Bank failures rose precipitously (Banking and Monetary Statistics - pp. 16 - 17).

In the fall of 1931, President Herbert Hoover believed that "cooperative action by the financial community might stabilize the chaotic economic conditions, calm the public, relieve the deflationary pressures on the banks, and eventually initiate an economic expansion" (Olson 1972 - pp. 1107). The discussions he had with Federal Reserve Board Governor Eugene Meyer and the chairpersons of the Federal Reserve Banks eventually grew into Hoover's plan for the National Credit Corporation (NCC), a privately backed collateralized lending vehicle by which the President hoped would re-stimulate the frozen financial system (Ibid. – pp. 1108 – 1110). Meyer was generally opposed to the NCC and actually advocated for outright reviving the War Finance Corporation, citing that the plan for the NCC was "inadequate" (Meyer 02/24/1954 – pp. 26).

In addition, Hoover attempted to persuade the Federal Reserve System to lower the standards for the collateral it would accept for loans (Kroszner 1994 - pp. 3). By November 7, the NCC began lending, with the ability to issue up to $1 billion in debt, and private banks purchasing $500 million (Ibid. – pp. 1108 – 1111).

During this period, the initial impact that both the announcement and establishment of the NCC had on the economy appeared to be very promising, as bank failures and suspensions declined, while stock and bond markets rallied (Kroszner 1994 - pp. 3). In spite of these developments, the NCC was very slow at actually disbursing funds when an applicant was approved, and further delayed making commitments in the wake of the upsurge (Olson 1972 - pp. 1110 - 1111). This rally was short-lived, with equities and bond prices cratering again in November (Kroszner 1994 - pp. 3). By the end of 1931 the NCC had issued less than $10 million in loans, despite depositors continuing to run (Olson 1972 – pp. 1111, Banking and Monetary Statistics – pp. 17). At this point, it was clear that the NCC had failed, and that more involved government intervention was necessary (Olson 1972 - pp. 1112).

Hoover pushed for the creation of a Reconstruction Finance Corporation (RFC) in a speech on December 7, 1931, outlining it as an agency similar in nature to the War Finance Corporation (Final Report of the RFC - pp. 1). Congress passed the Reconstruction Finance Corporation Act on January 22, 1932, and the RFC began operations a month later (Ibid. - pp.

1). Initially the RFC was established as a large-scale collateralized lending agency, and it lent extensively to financial institutions (Ibid. - pp. 1, pp. 51). Conditions had deteriorated so much that, on the day that the RFC began lending, the reserves of all Federal Reserve member banks had been reduced to within $50 million of the lowest amount allowed by law (Jones 1951 – pp. 15). RFC loans tended to have short durations (under six months), and the RFC often imposed both high-quality collateral requirements and higher interest rates than the Fed charged (Calomiris and Mason 2013 – pp. 527 – 528). The increased leverage, short maturity, strict collateralization requirements, and subordination of depositors may have increased the risk of a deposit run in recipient banks, some RFC critics charged (Calomiris and Mason 2013 – pp. 528, Mason 2001a – pp. 89 - 90).

One of President Roosevelt's first actions was to declare a 4-day long bank holiday, at the end of which a special session of Congress would be held to pass any legislation needed to fight the Depression (Jabaily 2013). What came out of this special session, on March 9, was the Emergency Banking Act (EBA) (Final Report of the RFC - pp. 4). The EBA gave the RFC the authority to subscribe to the preferred stock of financial institutions and issue loans secured by such preferred stock (Ibid. - pp. 4.). The passing of the EBA signaled a significant change in how the RFC assisted the financial system and marked the end of its reliance on large-scale loan programs.

Program Description

The RFC was a massive, ever-expanding organization. The RFC had an initial capital stock of $500 million, albeit subscribed by the U.S. Treasury rather than private banks (Final Report of the RFC - pp. 20 - 21). However, the RFC could have obligations (debts, notes, bonds, et cetera) up to three times this amount outstanding (Ibid. - pp. 21).[2] Section 9 of the Reconstruction Finance Corporation Act (The RFC Act), specified that these obligations were fully guaranteed by the Treasury, which could also sell any obligations issued by the Corporation (P.L. 72-2 - pp. 5 - 7). Treasury was authorized to market these obligations to the general public just as they would if they were marketing government bonds or other obligations (Ibid. – pp. 6 – 7).

A seven-member board, led by the Secretary of the Treasury, managed the corporation, though any decisions about subscribing to, loaning on, or directly purchasing preferred stock, capital notes, or debentures had to be approved by the President (P.L. 72-2 – pp 2, P.L. 73-1 – pp. 6). Both the Federal Reserve and Treasury played significant roles in the operation of the RFC. The Reserve Banks were, "authorized to act as depositories, custodians, and fiscal agents for the Corporation," and the Corporation kept all of its funds on deposit at Treasury (P.L. 72-2 – pp. 5).

The preferred stock purchase program really began during the nationwide bank holiday. RFC officials classified national financial institutions as A, B, or C banks based on their level of impairment (Jones 1951 – pp. 22). A banks were considered sound, B banks had capital bases that had mostly disappeared, but could still pay off their depositors, and C banks were

[2] This amount would later be increased to six and three-fifths via Section 205(a) of the Emergency Relief and Construction Act of 1932. This increased the amount authorized from $1.5 billion to $3.3 billion.

insolvent (Ibid. – pp. 22 – 23).[3] This system of classification allowed the RFC to analyze which banks were sound enough to immediately re-open (type A), those that needed rehabilitation (type B), and those that needed either a conservator or receivership (type C) (Ibid. – pp. 23).

In the first of his famed "Fireside Chats" on March 12, Roosevelt reiterated that only "sound" banks would be allowed to re-open after the holiday (Ibid. - pp. 27). Roosevelt specified that banks located in the 12 cities with Federal Reserve banks in them would open on Monday, followed by banks located in cities where there was a "recognized clearinghouse" on Tuesday, followed by all other sound banks in the country on Wednesday (FDR 03/12/1933). While over 4,500 banks opened in the first three days following the bank holiday, hundreds more were taken into conservatorship at the end of that week, and thousands more would need to be given substantial assistance before they could re-open (Ibid. – pp. 25 – 28). Jesse Jones, the Chair of the corporation, estimated in his memoirs that even after the holiday ended, approximately 5,000 reopened banks still "required considerable added capital to make them sound."

In order to obtain RFC investment, financial institutions (and insurance companies and mortgage associations later) were required to apply to regional RFC offices for assistance (Mason 2003 - pp. 104). Even after being approved, however, banks were not obligated to issue preferred stock to the RFC. As Jesse Jones, chairman of the organization, pointed out, "We authorized the investment of many millions more in approximately 1,000 other banks; but, as conditions improved, they were able to proceed without our proffered help" (Jones 1951 – pp. 25)

All banks, including those that were newly formed or closed, were eligible for support, as well. Applicants had to include copies of their charters, authorizations for issuing preferred stock, bank examiners reports, balance sheet information, and other documents (see KDD #7 for more detail) (RFC Circular #6 – pp. 2). Additionally, applicants had to prove that they would be able to pay dividends of six percent on the preferred equity, which was the maximum allowed under the Emergency Banking Act, although dividends that high were not required (RFC Circular #6 – pp. 2, Jones 1951 – pp. 36). Payment for these would be deposited to the RFC's account at each of the Federal Reserve banks (Jones 1951 - pp. 36).

In an early public circular, the RFC anticipated its involvement in cases where: 1) an applicant's capital was partially impaired by losses, 2) its capital was *entirely* eliminated by losses, or 3) its capital was eliminated and depositors *also* faced losses (RFC Circular #6 – pp. 3). If the applicant's capital was partially impaired, the RFC assessed whether its remaining capital offered "a reasonable margin of protection" for the Corporation's investment (RFC Circular #6 - pp. 3).

The RFC did not identify the level at which it would determine that a bank's capital offered this "reasonable margin of protection." In addition to examining the materials a particular applicant submitted, the RFC also developed a policy of only injecting capital into institutions

[3] State regulators followed a similar classification method as the national regulators for their own banks.

whose sound value of their assets equaled that of their liabilities (RFC Circular #6 – pp. 3).[4] In his memoirs however, Jesse Jones wrote that the RFC banks were required to have sound assets equal to just 90 percent of liabilities to be eligible for RFC funding (Jones 1951 – pp. 27 – 28). (He would later attempt to convince the Senate Banking and Currency Committee to lower the threshold to 75 percent, but was unsuccessful).

If the applicant's capital was entirely eliminated, applicants would be taken into the RFC's bank "hospital" so they could be rehabilitated without having to go into receivership (Jones 1951 – pp. 27 – 28). These banks could either raise capital by issuing common or subordinated preferred equity, or encourage existing shareholders to reduce or subordinate their claims against the applicant (RFC Circular #6 - pp. 3). If the applicant's capital was eliminated and depositors also faced losses, stakeholders (depositors and other creditors) would be expected to accept a reduction in the value of their investments, on a pro-rata basis, and would do so until the applicant met the threshold to receive RFC assistance (Ibid - pp. 3).

In addition to these financial protections, the stock also required several miscellaneous ones, as well. These were:

1) "Substantial voting rights" for any matters concerning the applicant.

2) Limitations on common stock dividends.

3) Setting aside a portion of net profits for the applicant to use to buy back its preferred stock from the RFC.[5]

4) "Understandings from time to time between the bank and [the RFC] with respect to general policies."

5) Requiring the applicant to provide the RFC with operational reports when requested (Ibid - pp. 2 - 3).

Congress set the terms of the preferred stock in Section 302 of the Emergency Banking Act. Under those terms, the preferred stock would pay cumulative dividends that could be at or below six percent, the stock would carry significant voting rights, and it would be non-assessable (P.L. 72-2 – pp. 5). Assessable stock was a type of equity that was normally offered at a discounted price, but with the caveat that the company who sold the stock could require shareholders to pay up to the difference between the discounted purchase price and initial face value of the stock, thereby adding another layer of potential liability for shareholders (Hill and Painter 2010 - pp. 1175). The use of assessable stock was still quite popular in the years leading up to the initial financial panic. In the crisis, however, assessable stock, similar to the widespread use of double liability prior to the crisis, would quickly taper off (Miller and Macey 1992 - pp. 37 - 38).

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[5] The money set aside in the retirement fund was to be used when the issuing bank was ready to retire, and thus buy back, its RFC preferred stock.

RFC preferred stock was senior to common stock and *cumulative*: institutions that received it could not pay dividends on common stock until the par value and all dividends had been paid (P.L. 72-2 – pp. 5). The Emergency Banking Act didn't specify the term length of the stock, nor did it contain anything like step-up or mandatory conversion clauses (Ibid. – pp. 5 – 6).

The RFC was authorized to write loans secured by this preferred stock, and banks applied for these in the same way they applied for preferred stock (RFC Circular #6 – pp. 3 - 4). Loan applicants also needed to provide statements of the terms of the loan, their financial condition, and additional collateral that they could offer up in addition to the preferred stock (Ibid. – pp. 4). Unlike its preferred stock subscriptions and direct purchases of capital notes and debentures, these loans could be secured by assessable stock (Ibid. – pp. 3). The RFC would also often buy preferred stock and issue a bank a loan at the same time (Jones 1951 – pp. 47).

Two-thirds of the institutions that received RFC assistance were state banks, which often were prohibited from issuing non-assessable preferred stock (Ibid. – pp. 25 – 26). Through an amendment to the Emergency Banking Act on March 24, 1933, state banks and trusts that were not allowed to issue non-assessable preferred stock could instead issue debt—capital notes and debentures—that would be purchased directly by the RFC (P.L. 73-4). These notes and debts, just like the preferred stock, could also be sold on the open market by the RFC (Ibid. – pp. 2).

Insurance companies would be eligible for preferred stock assistance through an act passed on June 10, 1933 (P.L. 73-35). Insurance companies faced not only a total cap of $50 million in RFC aid, but strict executive compensation and capital retirement limits while receiving RFC assistance (See KDD #13 for more information) (RFC Circular #8 – pp. 1 – 2).

At the end of January 1935, Congress extended the scope of the RFC's authority to national mortgage associations, mortgage loan companies, trust companies, savings and loan associations, or similar institutions whose primary focus was dealing in real estate (P.L. 74-2 – pp. 3). For these, the RFC was allowed to subscribe to, or issue a loan secured by non-assessable stock of any class, not just preferred stock; the RFC could also purchase capital notes or debentures from companies that could not issue non-assessable stock, with an outstanding limit of $100 million (Ibid. – pp. 3). While the total amount of preferred stock assistance that was authorized to insurance companies and real estate lenders was capped, the RFC was allowed essentially unlimited authority with respect to financial institutions, to an amount that was "sufficient to carry out the provisions of [section 304]" (P.L. 73–1 – pp. 6).

Participation was voluntary but became widespread after banks overcame their initial reluctance. Jones recalled: "We in the RFC concluded that fewer than twenty of the more than six thousand banks into which we put capital actually had no need of it" (Jones 1951 – pp. 34). Stronger banks were slower to participate, and the RFC encouraged these institutions to participate even if they didn't need very much, if any capital (Ibid. – pp 34). Jones specified that this was principally to reduce stigma, or "to take the curse off the many weaker banks which did need new capital (Ibid. - pp. 34)."

Outcomes

From 1933 to 1945, the Corporation disbursed $1.17 billion in aid to 7,389 state and national banks and trust companies, an amount that represented about one-third of total capital in the U.S., as of 1933 (Final Report of the RFC – pp. 57, Friedman and Schwartz, Ch. 8 - pp. 9).[6] New issuances from the RFC ended by 1947, but the vast majority of the Corporation's applications came between 1933 and 1935 (Final Report of the RFC – pp. 221 – 225 and pp. 231 – 232). The scope of assistance was so wide that, "almost all large banks, in addition to the 5,000 conservatorships, receiverships, and assisted mergers, funded themselves through the RFC" (Todd 1992 – pp. 26).

Despite the desperate need for capital, Jones found that getting the banks to participate was quite difficult, and throughout the summer of 1933, the program moved along sluggishly (Jones 1951 – pp. 26). After a pair of speeches given by Jones at the American Bankers Association meeting in September, the RFC saw a sharp uptick in applications, processing as many as one-hundred a day throughout the rest of 1933 (Ibid. – pp. 27). The RFC authorized nearly 2,300 applications in the fourth quarter of 1933 (Final Report of the RFC – pp. 221 – 225).[7]

While the fourth quarter of 1933 saw a dramatic increase in participation, most of the RFC's bank assistance efforts occurred in 1934. In this year alone, the RFC authorized 5,386 applications for loans, subscriptions, and outright purchases, more than doubling its efforts in 1933 (Final Report of the RFC – pp. 221 – 225). This was not a coincidence, as "widespread participation in the preferred stock program occurred only when the FDIC began backing some of the deposits in solvent banks in 1934" (Calomiris and Mason 2013 – pp. 528).

Despite the initial extraordinary efforts by the RFC, several changes were made after the Emergency Banking Act of 1933. Less than two weeks after Congress passed the legislation, it revised the law to allow the RFC to purchase debt instruments in state banks and trusts that were not legally allowed to issue non-assessable preferred shares (P.L. 73-4, P.L. 73-35). Congress added insurance companies in June 1933 and real estate lenders, including national mortgage associations, in January 1935 (P.L. 74-2 – pp. 3). Dividends were originally set at five percent, but were subsequently lowered to four, then three and-a-half percent (Jones 1951 – pp. 36). Jesse Jones remarked that bankers wanted the RFC to lower them another fifty basis points, but the Corporation refused, offering three percent only if beneficiaries agreed to pay them promptly, as they were often 10 to 60 days late (Ibid. – pp. 36). While initially bankers felt that the RFC would not follow through, they quickly paid on time after the RFC refused to offer them lower rates due to tardiness (Ibid. – pp. 36 – 37).

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[6] Applicants were not limited to receiving one type of aid (IE – Just subscriptions on preferred stock), and could even apply multiple times to the same program. This number reflects the total number of institutions that applied to every part of the program, including those that applied multiple times. As of 12/31/1940, the RFC reported that 6,868 institutions received aid, netting out those that received aid from multiple sources (Final Report of the RFC – pp. 56 – 57).

[7] The Corporation authorized 923 subscriptions for preferred stock, 98 loans secured by preferred stock, and 1,275 purchases of capital notes and debentures.

Table 1: Summary of RFC Preferred Stock Assistance to Banks and Trust Companies

Measure	Number of Borrowers	Authorized	Disbursed
Subscriptions of Preferred Stock	4,202	$859,592,768	$782,206,636
Loans secured by Preferred Stock	274	$52,746,026	$45,096,801
Purchases of capital notes, debentures	2,913	$433,872,875	$343,261,875
Total	**7,389**	**$1,346,211,669**	**$1,170,565,312**

Source: Final Report of the Reconstruction Finance Corporation - pp. 55 - 57

Subscriptions to preferred stock were the most widely used method of support, while loans secured by preferred stock tended to be used far less (Final Report of the RFC – pp. 55 – 57). Institutions in New York, Wisconsin, Pennsylvania, Texas, and Ohio used the most RFC assistance (Ibid. –pp. 57). New York state banks, in particular, made up half of the amounts disbursed for the outright purchase of capital notes and debentures (Ibid. – pp. 56). The existing data don't show what types of aid went to each state.

One of the most crucial developments during the turbulent early years of the crisis was the advent of deposit insurance. Deposit insurance was seen by many as a more effective tool at preventing bank runs than double liability had been (Miller and Macey 1992 – pp. 38). President Roosevelt initially opposed this, citing several state deposit insurance policies that failed due to weak banks "draining" the stronger ones. (Jones 1951 – pp. 45). Roosevelt ultimately approved the Glass-Steagall Act on June 16, 1933, which created the Federal Deposit Insurance Corporation (FDIC) (Ibid. – pp. 46). Both member and non-member banks of the Federal Reserve system that applied for deposit insurance were required to buy capital stock in the FDIC equal to 0.5% of their total deposit liabilities (P.L. 73-66 – pp. 8 – 9). Increases and decreases in their deposit bases were met with corresponding increases in decreases in their holdings of FDIC capital stock (Ibid. – pp. 10 - 11). The Corporation officially began its operations on January 1, 1934 (Ibid. – pp. 19 – 21). After this date, FDIC membership was required of all banks in the Federal Reserve System (Ibid. – pp. 8 – 9). National banks in the system that didn't obtain deposit insurance by July 1, 1934 would be placed into conservatorship or receivership, and state member banks would be removed from the system if they did not become FDIC members (Ibid. – pp. 9).

This act put an implicit time limit on the RFC's efforts to rehabilitate struggling banks. The implementation of deposit insurance on January 1, 1934, meant that it was possible that the two-thousand banks that remained in the RFC's bank hospital group would not qualify for deposit insurance unless further action was taken (Jones 1951 – pp. 28 – 30). To prevent this, Treasury Secretary Morgenthau, at the behest of Jones, agreed to certify the banks in the hospital group as solvent so long as the Corporation could make them solvent within 6 months (Ibid. – pp. 30). FDIC membership was required to obtain and maintain membership

in the Federal Reserve System, and if a bank was a national bank and already a member of the system it would be placed into conservatorship or receivership if it didn't obtain deposit insurance (P.L. 73-66 – pp. 8 – 9).

Many institutions were still struggling to lend profitably by 1936, and would retire their RFC capital without first replacing it with private capital (Jones 1951 – pp. 37). To remedy this, the RFC said that they would accept U.S. government bonds that banks bought at par when they were ready to retire their capital. In this way, banks could "earmark" the RFC capital against lower interest rate Treasuries and pay a lower effective rate (Ibid. – pp. 37). Essentially, an applicant would receive money for the sale of preferred stock from the RFC, then buy an equivalent amount of Treasuries with that money. The RFC would then buy the Treasuries at par from the applicant, and the difference between the yield and dividend would be paid by the applicant, effectively lowering their rate of borrowing. See Appendix A for more details.

At the time, the widespread use of double liability in the U.S. banking system had come under attack. A system of double liability, formally established by Section 12 of the National Banking Act of 1863, allowed shareholders to be assessed an additional amount up to the par value of their shares (12 Stat. 665. 37th Congress – pp. 668).[8] The tremendous stress placed on the financial system, illustrated by a massive number of bank failures at the onset of the Depression, made people question the viability of the double liability infrastructure (Miller and Macey 1992 – pp. 37). Shareholders, many of whom had recently bought stock in the wake of the economic boom and were already in serious trouble, were assessed en masse, and were struggling to pay (Ibid. – pp. 37). The system, despite being designed to insulate depositors from the risk of a bank run by ensuring they would get repaid via shareholder assessments, was seen as "inadequate as a means of protecting the depositing public" (*Statutory Liability*, supra note 37 – pp. 620) As a result, Congress quickly acted and passed laws in 1933 and 1935 that de facto removed double liability from most of the banking system, before formally abolishing it on May 18, 1953 (P.L. 83-28).[9]

The RFC envisioned an approximately twenty-year horizon in which banks would retire their preferred stock (Jones 1951 – pp. 39). As a condition of RFC assistance, banks were required to set aside a portion of their net earnings every year into a preferred stock retirement fund so that the money used to retire the RFC investment would already be available and allocated (Jones 1951 – pp. 39, RFC Circular #6 – pp. 2). The RFC seemed to exceed their internal estimate as, according to Jones, about 392 banks still had only about $92.7 million in RFC investments outstanding by March 1951, which was less than ten percent of total preferred stock assistance (Jones 1951 – pp. 36).

[8] Double liability structures had been established in several states or via individual banking charter agreements prior to this Act, but this was the first piece of legislation that did so for national banks.

[9] Section 22 of Glass-Steagall abolished double-liability with respect to any shares issued after its enactment, and the Banking Act of 1935 amended section 22 to apply all shares, so long as the issuer gave its shareholders at least a 6-month "notice of such prospective termination of liability" that could be published either in a local or national paper (P.L. 73-66 – pp. 31, P.L. 74-305 – pp. 28).

II. Key Design Decisions

1. **The Preferred Stock Purchase Program was part of a package of measures that included the establishment of a conservatorship authority and broadening of the Fed's emergency lending capabilities.**

The RFC's size and scope grew as the Depression went on. Initially it was primarily used as a collateralized lending vehicle to provide liquidity to national and state banks, trusts, and insurance companies in the early months of the Depression, in effect acting as a lender of last resort (Final Report of the RFC – pp. 51 – 54 and pp. 60 – 63). However, these loans were generally very short-term, strictly collateralized, and given at penalty rates. For these reasons, they could not address the growing insolvency of the nation's banks (Calomiris and Mason 2013 – pp. 527 – 528). Banks that received such assistance often became more indebted and in effect subordinated their depositors, resulting in an even greater risk of a run (Ibid. – pp. 528).

As a result, Title III of the Emergency Banking Act, which was passed on March 9, 1933, enabled the RFC to directly invest in, or subscribe to, the preferred equity of state and national financial institutions (P.L. 73-1 – pp. 5 – 6).

Title II of the EBA, also called the Bank Conservation Act, authorized the Comptroller of the Currency to appoint a conservator if a bank was struggling (Ibid. – pp. 2 - 3). The conservator would essentially have all the same powers that a receiver of an insolvent bank would have, including liquidation authority (Ibid. – pp. 2 - 3).

Title IV amended Section 10(b) of the Federal Reserve Act to allow the Fed, under "exceptional and exigent circumstances" to lend at a penalty rate of at least one percent above the "established rate" to member banks that were unable to find credit elsewhere (Ibid. – pp. 7). Title IV also relaxed the strict collateral requirements that were imposed on Federal Reserve banks when they issued Federal Reserve bank notes, allowing all direct obligations of the U.S. to be used as collateral rather than select pre-war bonds (Ibid. – pp. 6 – 7).[10] These bank notes, which acted as an emergency currency, were not backed by gold but still "receivable at part in all parts of the United states….and shall be redeemable in lawful money of the United States on presentation at the [Treasury] or at the bank of issue" (Silber 2009, pp. 25, P.L. 73-1 – pp. 6). While these were "virtually obsolete prior to the EBA, by June 30, Reserve Banks had issued about #138.7 million (Preston 1933 – pp. 587 - 588).

Title IV also significantly broadened the Reserve Banks' lending authority, allowing them to lend to any "individual, partnership or corporation" if "secured by direct obligations of the United States." This language remains in Section 13(13) of the Federal Reserve Act; Congress revised the language only once, in 1968, to include obligations of the government-sponsored enterprises (Section 13).

[10] Federal Reserve bank notes differed from Federal Reserve notes in that they were issued and backed by one of the 12 regional Fed banks, rather than by the system as a whole.

2. **The ability to issue these bank notes, combined with the increased lending authority of Reserve Banks and indemnified by the Treasury, provided an implicit deposit guarantee, which was a large driver in restoring public confidence (Silber 2009 – pp. 25). The RFC was granted authority to subscribe to, directly purchase, and make loans secured by preferred stock via Section 304 of the Emergency Banking Act of 1933.**

Section 304 of the Emergency Banking Act, passed on March 9, 1933, stated that any national bank, state bank, or trust company could "request the Reconstruction Finance Corporation to subscribe for preferred stock in such association, State bank, or trust company, or to make loans secured by such stock as collateral" (P.L. 73-1 – pp. 6). Section 304 also permitted the RFC to sell any or all of the preferred stock obtained via these methods in the open market (Ibid. – pp. 6).

On March 24, 1933, an amendment to Section 304 was passed, allowing the RFC to directly purchase capital notes and debentures of State Banks that could not issue preferred stock that was exempt from double liability (P.L. 73-4). In June 1933 and January 1935, the RFC's authority to purchase preferred stock would be extended to both insurance companies and national mortgage associations, respectively (P.L. 73-35, P.L. 74-2 – pp. 3).

3. **President Roosevelt declared a national bank holiday on the morning of March 6 to both calm the initial panic and give the government time to come up with a solution.**

On March 6, President Roosevelt issued Proclamation 2039, which declared a four-day long bank holiday so that members of the U.S. government could better address the collapsing financial system (Proclamation 2039). While a considerable number of states had individually declared their own bank holidays, Proclamation 2039 "turned a maze of state restrictions into a uniform national policy" (Silber 2009 – pp. 4) The American people largely seemed to respond to the closings "with good nature", and "many thought it a great joke that they were unable to get into the banks for the purpose of making deposits" (FRB Boston 1996 – pp. 20)

On March 9, a special session of Congress convened to draft emergency legislation in the wake of the crisis (Jabaily 2013). What emerged was the Emergency Banking Act and with it, the RFC's preferred stock purchase program. Roosevelt did not immediately re-open the banks following the Emergency Banking Act and instead extended the holiday for three additional days until March 13 (Silber 2009 – pp. 1).

4. **President Roosevelt and Chairman Jesse Jones were active in emphasizing the importance of rescuing "sound" banks while still soliciting as many applicants as possible.**

In his inaugural address on March 4, 1933, FDR expressed the need for "a strict supervision of all banking and credits and investments; there must be an end to speculation with other people's money, and there must be provision for an adequate but sound currency" (FDR 03/04/1933).

Additionally, FDR asked Congress for, if circumstances demanded it, “the one remaining instrument to meet the crisis – broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe” (Ibid.) This was a broad, immediate declaration that the government would do whatever it took to resolve the banking crisis.

On Sunday, March 12, Roosevelt delivered the first of many “Fireside Chats”, where he addressed the American people directly about the bank runs that had been plaguing the country. Roosevelt explained that only sound banks would be allowed to re-open, and that a bank’s location, as well as its status as a member (or non-member) of the Federal Reserve System would determine when it would open. (Roosevelt 03/12/1933). For instance, banks that were in the 12 Federal Reserve Bank cities would open that Monday, followed by banks that were located in cities that had recognized clearinghouses on Tuesday and all other banks on Wednesday and succeeding days (Ibid.). President Roosevelt reiterated the point, however, that “A bank that opens on one of the subsequent days is in exactly the same status as the bank that opens [Monday]” (Ibid.) In order to stoke confidence, Roosevelt said that, “I can assure you that it is safer to keep your money in a reopened bank than under the mattress” (Ibid.).

Title IV of the EBA which broadened the lending authority of Federal Reserve Banks and allowed them to issue emergency currency not backed by gold, was another important component to the government’s response. At the time, “some bankers…interpreted the emergency banking act as a measure under which the government practically guarantees, not officially but morally, the deposits in the banks which it permits to re-open after [judging] them to be sound (NYT 03/13/1933 – pp. 3).” Bankers believed that, since Roosevelt communicated that re-opened banks would be “100 per cent sound and assured of sufficient currency to meet all obligations”, they believed they would be safe (NYT 03/13/1933 – pp. 3, Silber 2009 – pp. 25). As such, Title IV, in conjunction with the Fireside Chat and banking holiday, was seen as an implicit deposit guarantee for banks that would re-open (P.L. 73-1 – pp. 6 -7, Silber – pp. 25).

When much of the banking system re-opened on March 13, depositors all across the country waited outside of banks to return their money. Over half of the deposits taken out in the bank run had been redeposited within two weeks of the end of the bank holiday (Silber 2009 – pp. 19). Stock exchanges, which had been voluntarily closed along with the banks, re-opened to the “largest one-day percentage increase ever”, with the Dow Jones Industrial Average increasing by 15.34 percent. (Ibid. – pp. 20, pp. 28) These efforts by the new President illustrated the importance of concise communication in a crisis, and helped end the bank runs that marked the early part of the Depression (Silber 2009 - pp. 20).

Even after the Emergency Banking Act, banking holiday, and Fireside Chat in March of 1933, the RFC was still having trouble soliciting applicants for its capital assistance programs (Jones 1951 – pp. 26). Jones made two nationwide radio addresses on August 1 and November 1 of 1933 (Jesse Jones Papers – Box 3M500). In the first, he was stern with bankers, telling them to quit stockpiling excess reserves and reverse the outflow of credit that was occurring at this time (Olson 1988 – pp. 137).

Jones then gave an address at the American Bankers' Association convention on September 5 where he "advised the bankers to 'be smart, for once'", which did not play well amongst the members (Jones 1951 – pp.26 – 27). Jones spoke again that night, addressing the negative reception his first speech garnered and saying that, "more than half the banks represented at the gathering in front of me were insolvent, and no one knew it as well as the men in our banqueting room. I then sat down" (Ibid. – pp. 27). Eligibility for deposit insurance, which was scheduled to go into effect at the beginning of 1934, was discussed briefly by FDR in a national radio address in October 1933, stating that "…on or before [January 1, 1934] the banking capital structure will be built up by the Government to the point that the banks will be in sound condition when the insurance goes into effect" (FDR 10/10/1933). This, in conjunction with 12B(i) of Glass Steagall, which specified that insolvent institutions would not be eligible for deposit insurance, illustrated the importance of receiving RFC aid sooner rather than later (P.L. 73-66 – pp. 11).

The establishment of Glass-Steagall, contentious speeches by Jones, FDR's radio address, as well as Jones' successful push to get the larger banks in New York and Wall Street to get involved (see KDD #9 for more details), the RFC saw a dramatic increase in applications for its preferred stock program, with the organization processing as many as one-hundred applications a day until the end of 1933 (Ibid. – pp. 27). By the end of fourth quarter of 1933, the RFC had disbursed about $264 million in preferred stock aid, compared to just $63 million at the end of the third quarter.

5. **The RFC worked closely with regional Federal Reserve banks and the Treasury to operationalize its aid, and had a funding structure and evaluation procedures that allowed it considerable independence.**

Originally, the Governor of the Federal Reserve Board and the Farm Loan Commissioner were also members (P.L. 72-2 – pp. 1 – 2); Federal Reserve Governor Meyer was the first chairman. This was done in part due to the "urgent requirements of the moment", and that the RFC would need "great help from the Federal Reserve System", according to Meyer (Meyer 02/24/1954 – pp. 28 – 29). After six months, Meyer felt that the RFC had developed enough for him to request to be removed (Ibid. - pp. 29). This was done via the Emergency Relief and Construction Act on July 21, 1932, which removed those Meyer and the Farm Loan Commissioner, replacing them with two more political appointees (P.L. 72-302 – pp. 715). Of the six other members, no more than four could be of the same political party, and only one member per Federal Reserve district was permitted (P.L. 72-2 – pp. 2). Each board member had two-year terms, and earned $10,000 a year for their service (Ibid. – pp. 2).

Both the Federal Reserve and Treasury played significant roles in the operation of the RFC. The Reserve Banks were "authorized to act as depositories, custodians, and fiscal agents for the Corporation" (RFC Circular #4 – pp. 1) Proceeds from loans were generally disbursed through the reserve banks and their branches (Ibid. – pp. 1). Additionally, these banks held the primary obligations of borrowers, and any collateral pledged to the RFC for loans (Ibid. – pp. 1).

The RFC kept all of its funds on deposit at Treasury, and the Secretary of the Treasury had to request any subscriptions to, loans secured by, or outright purchases of preferred stock

issued by banks, trust companies, or insurance companies (RFC Circular #4 – pp. 3 – 4). After the request was made, the President could approve or disapprove the aid (Ibid. – pp. 3 – 4).

Early on, the RFC approved two separate loans totaling about $90 million for the Central Republic Bank of Chicago, headed by the well-connected Charles Dawes. This rescue was quite controversial, as many believed that Dawes used his political clout to leverage his way into receiving assistance (Mason 2003 – pp. 107). This rescue would eventually lead to Congress passing the Emergency Relief and Construction Act of 1932, which required the publication of any RFC beneficiaries in its monthly reports to Congress. (Mason 2003 – pp. 107, Public Law 72-302 - pp. 712).

The decision to publicize the names of borrowers generated quite a considerable amount of controversy both in Congress and in "almost every community where there was a bank" (Jones 1951 – pp. 83). Senator Steagall and Speaker John Garner, specifically, were consistent proponents of publicizing the names of applicants even retroactively, while critics voiced that publication had, and would continue to, "[crush] the life out of numerous institutions" (Ibid. – pp. 83). A bill would be passed that retroactively published the names of borrowers despite Congressional opposition (Ibid. – pp. 83).

However, the RFC was set up in such a way that made it more insulated from political probing and manipulation. First, any loans (and other investments) had to be "fully and adequately secured" (P.L. 72-2 – pp. 3). However, the collateral requirements were not specified, and only RFC staff were allowed to evaluate institutions (Mason 2001b – pp. 4 – 5). Finally, while the RFC was initially funded by a $500 million dollar appropriation, any additional funding came by way of issuing government-guaranteed bonds, which would usually be sold to Treasury (Ibid. – pp. 4 – 5). This design allowed the RFC to exercise more flexibility and independence without fear of having to return to Congress for additional funds.

6. **The RFC set up a system of field offices that could independently process and approve applications in major cities across the United States.**

The RFC had 32 field offices across the U.S. and one in Puerto Rico that were given a large amount of autonomy over which institutions would receive aid (RFC Circular #4 – pp. 1, Mason 2001b – pp. 5 – 6). Similar to the private sector, the RFC would "…pick a man to be completely responsible for the operations of an office and let him succeed or fail on the basis of whether or not his office showed a profit" (Mason 2003 - pp. 104). These loan managers could approve direct business loans of up to $100,000 (Mason 2001b - pp. 5). Anything greater than these, and the manager deferred to the central office in Washington to make the decision (Ibid. – pp. 5). By decentralizing control and profit-constraining its local offices, the RFC largely prevented "inefficient credit or capital allocation that may have arisen from ineptitude or local political influence (Ibid. - pp. 5 - 6)."

At a minimum, there would be at least one RFC office in every Federal Reserve district (Mason 2003 – pp. 104). If aid decisions made by the more local offices had an adverse effect on overall RFC earnings, however, they were held accountable to the central office (Ibid. – pp. 104).

7. The RFC had no defined limit on the size of its bank assistance programs.

The RFC was allowed to subscribe to preferred stock, make loans secured by preferred stock, and directly purchase capital notes and debts (RFC Circular #4 – pp. 9 – 10). Although there was an overall cap on how much the RFC could borrow to finance its operations, this did not affect how much it could borrow to finance its preferred stock assistance (Ibid. – pp. 9 – 10, see KDD #9 for more details).

While the Corporation had no direct limit on how large its bank assistance programs could be, the RFC originally could not have more than three times its capital stock outstanding in any obligations, including notes, bonds, debentures, or anything else (P.L. 72-2 – pp. 6). However, this amount would be increased to 6.6 times its capital stock after the Emergency Relief and Construction Act was passed (P.L. 72-302 – pp. 714). With a capital stock of $500,000,000 subscribed to from the Treasury, this meant that the maximum amount the RFC could lever themselves started and ended at $1.5 billion and $3.3 billion, respectively (P.L.. 72-2 – pp. 1).

8. Injections were based on need, and institutions had to apply and be approved by the RFC in order to issue preferred stock.

Applicants could be banks that were either currently operating or closed but contemplating reorganization. Even newer banks and thrifts were allowed to apply (RFC Circular #6 – pp. 1). The process required institutions to submit the following:

1) A copy of the charter under which the preferred stock subscription was to be issued
2) If the applicant is not a national bank, copies of the statutes that allow the applicant to issue preferred stock
3) A copy of a resolution adopted or proposed to be adopted by the board of directors of the applicant authorizing the sale of such stock
4) A copy of the latest report of examination of the applicant
5) A statement by the applicant on their condition at the close of business on the day the application was forwarded
6) Schedules in adequate detail showing assets pledged to secure borrowed money, public funds, or other liabilities (Ibid. – pp. 2).

If the applicant was requesting a loan secured by preferred stock, there were additional requirements. Applicants had to include statements of:

1) The proposed terms of the loan
2) The applicant's financial condition
3) Any additional collateral offered for the loan in addition to the preferred stock (Ibid. – pp. 4).

Even though there was a clear application process, many banks did not immediately apply to the RFC. In fact, prior to the advent of the FDIC at the beginning of 1934 banks were saving as much as they could to prove that they could be as liquid as they needed to be if a run

occurred (Jones 1951 – pp. 51 – 52). "A few [banks] even solicited deposits with the boast that they were 75 per cent liquid. One bank, which had amassed an uncommonly large surplus, bragged of being 110 percent liquid" (Ibid. – pp. 52). Many of these banks, despite already having excessive amounts of liquidity, continued to hoard more by calling in loans and thus forcing liquidation from their borrowers, often destroying their net worth (Ibid. – pp. 52).

9. **The RFC financed its operations primarily through issuing government-guaranteed debt and via an initial subscription by Treasury to its capital stock of $500,000,000.**

While the $500 million was a sizable amount for the time, most of the RFC's operations were financed through borrowings (Final Report of the RFC – pp. 34 – 35). Initially, the RFC was "authorized and empowered, with the approval of the Secretary of the Treasury, to have *outstanding* at any one time in an amount aggregating not more than three times its subscribed capital, its notes, debentures, bonds, or other such obligations" (P.L. 72-2 – pp. 6). This amount would later be increased with the passing of the Emergency Relief and Construction Act of 1932 to 6.6 times its subscribed capital, representing an increase from $1.5 billion outstanding to $3.3 billion outstanding in borrowing authority (P.L. 72-302 – pp. 714).

Throughout its lifespan, the RFC borrowed a total of approximately $54.4 billion, with about $51.3 billion and $3.1 billion of these issued to the Treasury and the public, respectively (Final Report of the RFC – pp. 33). Banks and other institutions that the RFC had invested in bought the public securities (Ibid. – pp. 42). These were typically for one to three years, and carried interest rates that ranged from 0.875 to three percent (Ibid. – pp. 42). Borrowings from Treasury were a bit more varied. The maturities ranged from demand (overnight) to three-and-a-half years, with interest rates fluctuating from 0.125% to three-and-a-half percent.

10. **Initially, all state and national banks and trusts were eligible to apply for RFC preferred stock aid, and were categorized based on their capital adequacy during the bank holiday.**

Much of the work done to determine which institutions were likely to receive RFC assistance came over the bank holiday that FDR announced on March 4, 1933. (Jones 1951 - pp. 20-22) During the initial evaluation of the banking system, all national banks were classified as A, B, or C banks. A banks were considered sound, and were opened immediately after the bank holiday ended (Ibid. – pp. 22). B banks were undercapitalized but still had enough franchise value, and were opened "as quickly as they could be got into shape. (Ibid. – pp. 22)" C banks were insolvent, and there was already a clear loss to depositors (Ibid. – pp. 22). These banks were placed into conservatorship so that they could be either rehabilitated or liquidated, depending on the severity of their impairment (Ibid. – pp. 22).

Subsequent to the EBA, the RFC sent teams of examiners to determine if applicants were sound enough to lend to (Olson 1988 – pp. 64). Despite FDR asserting in his Fireside Chat that only sound banks would re-open, "it developed that probably no fewer than 5,000 of these banks [required] considerable added capital to make them sound" (Jones 1951 – pp.

27) This caused the RFC to establish a standard in which they would only provide assistance to an institution if the "sound value" of its assets was greater than or equal to its liabilities (RFC Circular #6 – pp. 3).[11] While it could be argued that these valuations, in many cases, were quite generous, Jones stated that, "I told [President Roosevelt] we should try to interest people in the various communities in reestablishing the banks by putting some of their own money in the stock. (Jones 1951 - pp. 27)"

Banks that did not measure up to these requirements were placed in the "hospital", and by mid-December of 1933, there were more than 2,000 banks that were in this state (Jones 1951 – pp. 28). In an attempt to reduce this number, Jones went to the Senate Banking and Currency Committee in an attempt ask them if they could help him in reducing the threshold down to 75 percent. However, Jones' efforts would be unsuccessful (Ibid. – pp. 28).

Even though application was voluntary, the RFC heavily encouraged some of the largest banks to get involved, even if they only took modest amounts of capital (Ibid. – pp. 34). Jones encouraged these larger banks to take capital "to take the curse off the many weaker banks which did need new capital (Ibid. - pp. 34)."

Ultimately, two-thirds of the banks that applied and received RFC assistance were state banks, while the rest were national banks (Ibid. – pp. 26).

Institutions in New York and Wall Street were also reluctant to join the program. Jones believed that, "if the big banks of New York would cooperate with our program by selling us preferred stock or capital notes, the banks in the country would follow" (Ibid. – pp. 35) Later that year, after a $25 million capital injection to the Manufacturer's Trust Company on October 28, as well as candid meetings with Jones and Roosevelt, both New York state and Wall Street banks began to apply in droves (Ibid. – pp. 35 – 36). In particular, National City Bank and Chase National obtained $50 million in preferred stock each and overhauled their capital structures (Ibid. – pp. 35 – 36).[12]

11. The RFC later received authority to invest in the preferred stock of insurance companies on June 10, 1933.

An Act passed on June 10, 1933 allowed insurance companies to request that the RFC subscribe to or make a loan secured by said preferred stock that was exempt from double liability to them (P.L. 73-35 – pp. 119) Just as in the case with financial institutions, insurance companies that couldn't issue preferred stock could issue capital notes to the RFC for purchase for the same effect (Ibid. – pp. 120). These instruments could be subordinated to other creditor claims as well, which was not the case for its bank assistance programs. This authority had a limit of $50 million outstanding (Ibid. – pp. 119 - 120).

[11] In Jesse Jones' recounting of the program, he specified that they required only a 90 percent ratio of sound asset value to liabilities (Jones 1951 – pp. 27 – 28). In other words, corporations whose assets equaled 90 percent of their liabilities, according to Jones, were eligible for RFC assistance.

[12] National City Bank reduced the total value of its shares of common stock from $124 million to $77.5 million while issuing $50 million in new preferred equity to the RFC. Chase National similarly reduced its common stock value from $148 million to $100 million.

Similarly to banks and trusts, insurance companies would receive aid "…on the basis of the sound net worth of the company…", which was calculated by obtaining the market value for all assets, which were usually mortgages and securities, that had a market value (RFC Circular #8 – pp. 2). Where market value couldn't be obtained the sound value of the assets would be used (Ibid. – pp. 2).

When applying for aid, insurance companies had to submit:

1) A copy of the charter under which the preferred stock subscription was to be issued (RFC Circular #8 – pp. 3).

2) A copy of the statutes that gives the applicant the authority to issue preferred stock or capital notes if they were not able to issue preferred stock (Ibid. – pp. 3).

3) A copy of resolutions adopted, or proposed to be adopted, by the board of the insurance company that authorized the sale of preferred stock or capital notes (Ibid. – pp. 3).

4) A copy of the applicant's latest examination report (Ibid. – pp. 3).

5) "Copies of the applicant's convention reports as filed with the superintendents of insurance of the various States for the last preceding 5 full years, and a complete copy of the annual financial statement on the regulation convention forms as of the most recent date available, but in no event more than 4 months prior to the date of application" (Ibid. – pp. 3).[13]

6) Statements of the applicant's cash receipts and disbursements for the last five full years, as well as the period of time between the application date and the date that the company filed the above mentioned convention reports (Ibid. – pp. 3).

7) "If not fully reflected in the convention reports, supporting schedules [showing] in detail all assets pledged to secure borrowed money, together with schedules of assets deposited with the various State departments of insurance" (Ibid. – pp. 3).

8) A complete statement of any reorganization plan that the applicant plans on putting into operation. The applicant was also required to provide a statement of approval of the plan by their respective state insurance supervisory authority, as well as any additional conditions that said authority attached to the plan (Ibid. – pp. 3), and,

9) A complete statement of the sources where other funds are planning to be raised. This includes the names of the subscribers to any class of capital stock or purchasers of capital notes, as well as those offering preferred stock as collateral for RFC loans (Ibid. – pp. 3).

Insurance companies were subject to even more stringent requirements than banks and trusts. The RFC would not purchase, subscribe to, or issue a loan secured by preferred stock,

[13] Applicants were required to use market values of securities in these convention reports, although the supporting documents that applicants were to submit (such as balance sheets and annual financial statements) would not use these.

if either any "officer, director, or employee" of the insurance company made $17,500 a year (Ibid. – pp. 2). Additionally, the applicant had to pledge not to increase compensation for any employee nor retire any stock, notes, or obligations while the RFC had capital in it (Ibid. – pp. 2). Insurance companies also had to submit a list consisting of the names and amount of equity held by any shareholders who owned 10 percent or more of their capital stock to the RFC (Ibid. – pp. 4). Unlike banks and trusts, who had to show that their earning capacity was sufficient enough to support annual dividend payments of up to six percent, insurers were only required to demonstrate ability to pay up to five percent dividends for the first five years (RFC Circular #6 – pp. 2, RFC Circular #8 – pp. 4). However, after this point, this threshold was bumped up to six percent (RFC Circular #8 – pp. 4).

12. The RFC later received authority to invest in the preferred stock of mortgage loan companies and national mortgage associations on January 31, 1935.

The Reconstruction Finance Act was amended on January 31, 1935, "to assist in the reestablishment of a normal mortgage market" (P.L. 74-2 - pp. 3). This amendment added section 5c to the RFC Act, which authorized the RFC to subscribe to or make loans upon non-assessable stock of any class of any mortgage loan company or national mortgage association, or other real-estate lender, up to a maximum amount of $100 million outstanding at any one time (Ibid. – pp. 3). The RFC's original enabling Act in 1932 authorized the RFC to make loans to these organizations, but not to inject capital (P.L. 72-2 – pp. 3).

The RFC used this authority to create two subsidiaries that dealt in real estate mortgages. They were the RFC Mortgage Company and the Federal National Mortgage Association, later known as Fannie Mae (Final Report of the RFC – pp. 93 – 96). The capital stock of each company was subscribed to by the RFC. The former was eventually re-integrated back into the RFC, while Fannie Mae is still around to this day (Ibid. – pp. 93 – 94). The RFC ultimately subscribed about $46 million in the capital stock of the two mortgage lenders, and disbursed over $1.7 billion in loans (Ibid. – pp. 93 – 96). This funding was used to purchase hundreds of thousands of mortgages, including those insured by the VA and FHA (Ibid. – pp. 94 – 96).

13. There were no individual participation limits for applicants.

14. Initially, the RFC could subscribe to or issue loans secured by cumulative non-assessable preferred stock.

The initial Emergency Banking Act allowed national banks to issue cumulative, non-assessable preferred stock, as well as allowing such stock to secure loans made by the RFC (P.L. 73-1 – pp. 5 - 6). On March 24, 1933, an amendment to the EBA was passed, clarifying that, for state banks and trust companies, the RFC could only subscribe to preferred stock that was non-assessable. (P.L. 73-4).[14] However, the RFC could still make

[14] Assessable stock was a type of equity whereupon a company would sell stock at a discount to investors with a guarantee that these investors would later participate in a secondary offering. The amount that the company could ask of these shareholders was generally equal to the difference between the face value and the original (discounted) purchase price.

loans secured by assessable preferred stock (RFC Circular #6 – pp. 2). Unlike the federal regulations that governed national banks, some state regulations prevented state banks and trust companies from issuing non-assessable preferred stock. (Kroszner 1994 – pp. 5). For these banks and trusts, the amendment also authorized the RFC to purchase capital notes of debentures in place of preferred stock to give them relief (P.L. 73-4).

RFC preferred stock was also senior to all other types of equity, with dividends being paid out annually and usually less than one percent below market rates, but above those on short-term business loans (Mason 2001(b) – pp. 19 – 20, Calomiris et al. 2005 – pp. 66 – 67). While the original Emergency Banking act stipulated that applicants needed to be able to pay out dividends of up to six percent, they were quickly started at five percent, but were subsequently reduced to four, then three and a half percent (Mason 2001(b) – pp. 19 – 20). Banks wanted the RFC to lower them to three percent, but the Corporation was having difficulty getting banks to pay them on time and had to more firmly demand prompt repayment from applicants, who were often delaying repayment anywhere from 10 to 60 days (Jones 1951 – pp. 36). Only institutions that repaid on time were given the lower rate (Ibid. – pp. 36 – 37).

Interest rates on loans secured by preferred stock of trust companies, which were heavily involved in the mortgage market, were set at four percent until March 31, 1939, at which point they would increase to five percent (RFC Circular #18 – pp. 3). In the case of preferred stock subscriptions or direct purchases of capital notes and debentures, the dividends (or interest rates) would be set at four percent through January 31, 1935, before falling to three and a half percent through January 31, 1940 and subsequently returning to four percent after (Ibid. – pp. 3).

Despite a massive infusion of RFC capital, banks still were struggling to lend properly by 1936 (Ibid. – pp. 37). Banks would often retire RFC capital without replacing it with private capital and thus, still remain impaired. To counter this, the RFC decided to, "accept interest-bearing US government bonds at par and [accrue] interest from banks in retirement of their RFC capital whenever the retirement would take place." This would allow banks to earmark liquid Treasuries against RFC capital and thus obtain even cheaper funding. If the Treasuries, for instance, were at 2.5 percent interest, then the RFC capital would only cost 50 to 100 basis points if the dividends were at 3 to 3.5 percent, respectively.

For example, a bank could obtain $1,000 from issuing preferred stock with dividends at 3.5 percent. With this new money, the bank would buy an equivalent amount of Treasuries that paid 2.5 percent. The RFC would buy the Treasuries at par and receive the interest payments. The bank would receive the same amount of cash and just need to make up the difference between the dividends and Treasuries, which would be just one percent instead of three. See Appendix A for more details.

15. The RFC required additional protections based on how impaired an institution was, such as raising additional capital, voluntarily creditor subordination or reduction of claims, or forcefully doing so if a bank was significantly impaired.

The RFC required there to be "a reasonable margin of protection for the preferred stock to be taken by the Corporation, represented by common stock, or by a class of preferred stock

subordinated to that to be taken over by the Corporation, or otherwise" (RFC Circular #6 – pp. 3)

The RFC anticipated involvement in cases where capital was:

1) Partially impaired.

2) Entirely eliminated by losses.

3) Entirely eliminated and have caused deposits to become impaired (Ibid. – pp. 3).

For the first case, the RFC analyzed the remaining capital structure to see if its investment would be sufficiently protected (Ibid. – pp. 3). For the second, protection for the RFC investment was to be provided by either purchase of additional common or subordinated preferred stock, or voluntary subordination or reduction of creditor claims against the applicant (Ibid. – pp. 3). For banks that had impaired deposits and no capital, claims against the bank would be reduced on a *pro rata* basis until the total of deposits and other liabilities equaled the value of the assets (Ibid. – pp. 3). These banks would then solicit additional common and / or subordinated preferred stock in the same way that institutions in the second category did (Ibid. – pp. 3).

16. For all preferred stock assistance, the RFC required substantial voting rights, limitations on common stock dividends, and portions of net profits to be set aside for preferred stock retirement.

There were further stipulations that applicants had to meet in order to receive RFC aid. The Corporation specified that preferred stock issued to it was to be protected by:

1) "Substantial voting rights in all matters concerning the issuing institutions.

2) Limitations on common stock dividends.[15]

3) Compulsory regular application of a substantial part of net profits of the issuing institution to the retirement of preferred stock.

4) Understandings from time to time between the bank and this Corporation with respect to general policies.

5) An agreement to furnish the Corporation from time to time such reports of the bank's operations and policies as the Corporation may require" (Ibid. – pp. 2 – 3).

In addition to the above requirements, as well as those in KDD #7, any institution requesting aid had to show that "its earning capacity [would] be sufficient at least to enable it to pay dividends on the preferred stock at the rate of six per centum (6%) per annum" (Ibid. – pp. 2)

[15] For Trust companies, there was no maximum on common stock dividends set (RFC Circular #18 – pp. 3).

17. There was no explicit exit strategy for the Preferred Stock Purchase Program, though Jesse Jones anticipated a twenty-year horizon. However, the RFC itself initially had a ten-year sunset date.

For the preferred stock program specifically, the RFC never defined an exit strategy, though many institutions repaid the government investment rapidly. In particular, most of the institutions in New York, which represented one of the more powerful banking cohorts in the nation, repaid their preferred stock by July of 1934, less than a year after they had received it (Jones 1951 – pp. 36). Jesse Jones, however did specify that, "we [at the RFC] held to the conviction that, given a stable banking system in which public confidence had been restored, the banks would earn the money to pay for and retire their preferred stock within twenty years without, meantime, depriving their common stockholders of dividends" (Ibid. – pp. 39). RFC banks ultimately retired their capital at a much quicker rate than this, with just 392 banks that they had given capital to having retired their investment by 1951 (Ibid. – pp. 36).

The authority from Section 304 of the Emergency Banking Act that allowed the RFC to directly invest in financial institutions was repealed through an act passed on June 30, 1947 (P.L. 80-132 – pp. 208). However, the previous authorities that allowed the RFC to make loans to financial institutions were extended on that same date (Ibid. – pp. 203 – 204). Despite this continued ability, the RFC did not issue any new loans to any banks or trusts because the power was seen as an emergency one only (Final Report of the RFC – pp. 5).

As for the RFC itself, section 4 of the Reconstruction Finance Corporation Act specified that "The corporation shall have a succession period of ten years from the date of the enactment hereof, unless it is sooner dissolved by an Act of Congress" (P.L. 72-2 – pp. 2). The initial ten year horizon would be revised and extended as the RFC's powers grew with new developments in the Depression and the advent of World War II.[16]

After a series of legislation that further extended its succession date, the Reconstruction Finance Corporation Liquidation Act was passed on July 30, 1953, giving it a final sunset date of June 30, 1954 (P.L. 83-163 – pp. 230). Any further liquidation was done by the Secretary of the Treasury, who continued liquidation of the RFC until it was abolished on June 30, 1957 (Reorganization Plan No. 1).

18. Following the Emergency Banking Act, the system of double-liability for shareholders and depositors was removed, and the Federal Deposit Insurance Corporation was created.

Prior to the Depression, most of the U.S. banking system operated under a standard of double liability, which meant that in the event of insolvency, a bank's shareholders could be responsible for some of the debts of the bank in addition to their own investments (Miller

[16] Section 6 of an Act passed on June 25, 1940 extended the succession date to January 22, 1947. An Act passed on August 7, 1946 further extended this to June 30, 1947 (P.L. 79–656). This was extended another year by an Act passed on June 30, 1947 (P.L. 80-132 – pp. 204). Finally, an Act passed on May 25, 1948 further extended the corporation's lifespan through June 30, 1956 (P.L. 80-548 – pp. 262).

and Macey 1992 – pp. 31). A large number of people had bought bank stock in the boom prior to the Depression and, when they became seriously financially impaired, the system of double liability served to only further strain them (Ibid. – pp. 37). This problem, coupled with the advent of deposit insurance and the fact that the volume of failed banks enforced widespread belief that double liability was not an effective mechanism of preventing bank failures, forced governmental action (Ibid. – pp. 37 – 38).

Section 22 of the Glass-Steagall Act of 1933 repealed double liability for any newly issued national bank shares following the passing of the law (P.L. 73-66 – pp. 31). The Banking Act of 1935 amended Glass-Steagall by giving national banks the option to remove double liability from their stock so long as they gave a public, six-month notice. Even before the 1935 amendment, "Federal double liability was all but moribund after 1934" (Miller and Macey 1992 – pp. 38).

The creation of the FDIC via section 12(b) of Glass-Steagall was another pivotal moment the government's efforts to fight the Depression (P.L. 73-66 – pp. 7 – 21). Deposit insurance was scheduled to go into effect on January 1, 1934, and was seen as "a necessary prelude to a full restoration of public confidence in the banks" (Jones 1951 – pp. 45, Ibid. – pp. 19). However, there were still thousands of banks in December that were still in the "hospital", and would not qualify for deposit insurance (Jones 1951 – pp. 28 – 29). Roosevelt, by stating that any banks that were given deposit insurance must be sound, had emphasized the need for all banks to be insured by the start of 1934 (Ibid. – pp. 29). There was fear amongst some administration officials that "another bank debacle would occur if, suddenly, it had to be made known to the public that some two thousand banks could not qualify for deposit insurance" (Ibid. – pp. 29). In late December, Jerry Jones and Treasury Secretary Henry Morgenthau quickly hammered out an agreement for these hospital banks. Morgenthau certified them as solvent and the RFC pledged to make them so within six months, which the Corporation did by broad solicitation of subordinated private capital and injecting some of its own (Ibid. – pp. 30).

III. Evaluation

Evaluation of the RFC's pre-Emergency Banking Act lending programs were mostly negative. RFC loans tended to have short durations (often less than six months), strict collateralization rules (so much so that they subordinated depositors), and very high interest rates (Calomiris and Mason (2013) - pp. 528). In fact, banks often became more indebted after receiving assistance (Ibid. - pp. 528). In one case, an RFC loan to Reno National Bank for $1,100,000 required $3,000,000 of the bank's best assets, leaving them even more strapped for cash in the event of a deposit run (Ibid. - pp. 528). Mason (2001a) found that the RFC's initial lending programs to financial institutions did not lessen the risk of failure, primarily due to the strict collateralization requirements that the RFC imposed (Mason 2001(a) - pp. 89 - 91). Empirical analysis conducted on banks in Chicago's Federal Reserve district suggested that initial RFC loans may have actually increased the risk of deposit runs, though this negative was lessened as collateral requirements relaxed (Ibid. – pp. 89 – 91).

The double liability system that was commonplace throughout the United States prior to the crisis saw its fair share of scrutiny, as well. One of the reasons why double liability systems (and similar, non-limited liability structures) began to fail at the onset of the Depression was that, due to the thousands of bank failures that occurred, the public believed at the time that the system did not fulfill its intended purpose of discouraging risk-taking and insulating depositors, though the ultimate conclusion was that double liability prior to the Depression was effective (Miller and Macey 1992 – pp. 37). However, Grossman (2001) suggested that, prior to the crisis, the double liability structure's benefits were seen through "lower failure rates, higher capital ratios, and higher liquidity ratios among state banks in multiple-liability states" (Grossman 2001 – pp. 157). These results ultimately did not hold for the 1930's, as the volume of failures that overwhelmed the economy may have contributed to banks failing sooner to reduce the losses that their shareholders would pay (Ibid. – pp. 157).

On the bank holiday in March of 1933, Ben Bernanke explained that, "[a]lthough the government's actions set the financial system on its way back to health, recovery was neither rapid nor complete" (Bernanke 1983 – pp. 31). To illustrate this point, he cited the massive number of banks that either did not re-open or did so on a restricted bases, as well as the substantial efforts (through loans and other assistance) made by the RFC and other New Deal-era organizations to keep these institutions afloat (Ibid. – pp. 31). Additionally, he cited multiple studies that found that the supply of credit to smaller firms, even after the bank holiday and preferred stock purchases, was still restricted, even to those that were solvent (Ibid. – pp. 32).

However, most of the analysis on the preferred stock purchase program suggested that it was an overwhelming success. While Mason (2001a) found negative results with respect to pre-Emergency Banking Act lending, the opposite was found with the preferred stock assistance, concluding that unlike the loan programs, which subordinated depositors, "effective bank policy requires the lender to assume substantial default risk, whether through collateral or equity" (Mason 2001(a) - pp. 91). The risk profile of applicants who were accepted suggested that they were "of middling risk", and that the RFC did not try to save completely insolvent institutions, though they would lend to closed banks undergoing liquidation (Calomiris and Mason 2013 – pp. 528, Final Report of the RFC – pp. 54 – 55). Despite the potential for the RFC to be affected by political influence, the organization's aid decisions did not appear to be so (Mason 2001b - pp. 3 - 4). This was due to three factors:

1) RFC aid was required to be "fully and adequately secured", and this determination could only be made by members of the Corporation, who often were formerly in the private sector. As a result, they tended to be liberal with their collateral valuations (Ibid. - pp. 4).

2) The RFC's funding structure insulated it from political influence, as well. While Congress appropriated the initial $500 million, the RFC could issue government-guaranteed obligations up to three-times (later six-and-a-half times) its capital stock. These obligations could be bought and either held onto or subsequently sold to the public by Treasury (Ibid. - pp. 4 - 5).

3) Decision-making, generally, was "devolved to the regional level wherever possible." While there was a main loan office in Washington, D.C., the regional offices

could approve loans up to $100,000 without approval from D.C. Field offices were expected to turn a profit and, if they didn't, someone from the main office would visit them to correct the issue (Ibid. – pp. 5).

Mason also mentioned that the RFC's heavy-handedness with its voting rights, high dividend and borrower publication requirements contributed to an initial lack of participation in the program (Ibid. – pp. 22 – 23). However, he agreed that Jesse Jones' continued encouragement, particularly after his speech at the American Bankers' Association conference, was a large reason that banks felt more inclined to participate (Ibid. – pp. 23).

Calomiris and Mason (2013) examined the effectiveness of RFC loans and preferred stock assistance on a sample of 209 Federal Reserve member banks in Michigan during the 1930's. The authors determined that banks that received RFC preferred stock assistance were 17 to 20 percent less likely to fail, whereas those that just received loans were no better off (Calomiris and Mason (2013) - pp. 540). In addition to addressing the likelihood of bank failure, they also found that lending volume increased because of RFC aid, stating that, "an increase in the probability of RFC assistance by one percentage point raised loan growth by one percent. (Ibid. - pp. 544 - 545)"

Politicization of the RFC's activities was also a topic that was explored further in-depth, as many New Deal-era programs had been found to be susceptible to such pressures (Kroszner 1994 – pp. 7). In general, concerns about political influence for RFC preferred stock investments appeared to be mixed. Kroszner (1994) found that states that had Representatives on the House Banking and Currency Committee obtained significantly more RFC assistance than a state without (Ibid. – pp. 10). Conversely, no such relationship was found for states that had only Senators on the Senate Banking Committee (Ibid. – pp. 10). Mason (2003), on the other hand, added additional parameters to the earlier models, and found that no such relationship existed and that "political variables appear to be poor predictors of the distribution of RFC loan assistance" (Mason 2003 – pp. 113)

Walker F. Todd, former assistant general counsel at the Federal Reserve Bank of Cleveland presented a more critical view of the RFC, citing that the preferred stock program was "one step short of nationalizing the banking system" (Todd 1992 – pp. 27) Conversely, he offered praise to Jesse Jones, saying that modern circumstances would, "make it difficult to appoint anyone comparable to him today" (Ibid. – pp. 27) Finally, Todd remarked that, since the preferred stock purchase began in an era of both an "externally constrained" Federal Reserve and without deposit insurance, the RFC should have been used to 1) compensate for weaknesses that deposit insurance had and 2) lend in situations that the Fed wouldn't lend in (Ibid. – pp. 27).

The overall evaluation of the preferred stock program suggested that it was broadly successful in both stabilizing a severely shocked financial system and modestly growing lending. However, broad adoption of the program took several months and multiple attempts by Jesse Jones and Roosevelt to persuade these troubled institutions to apply.

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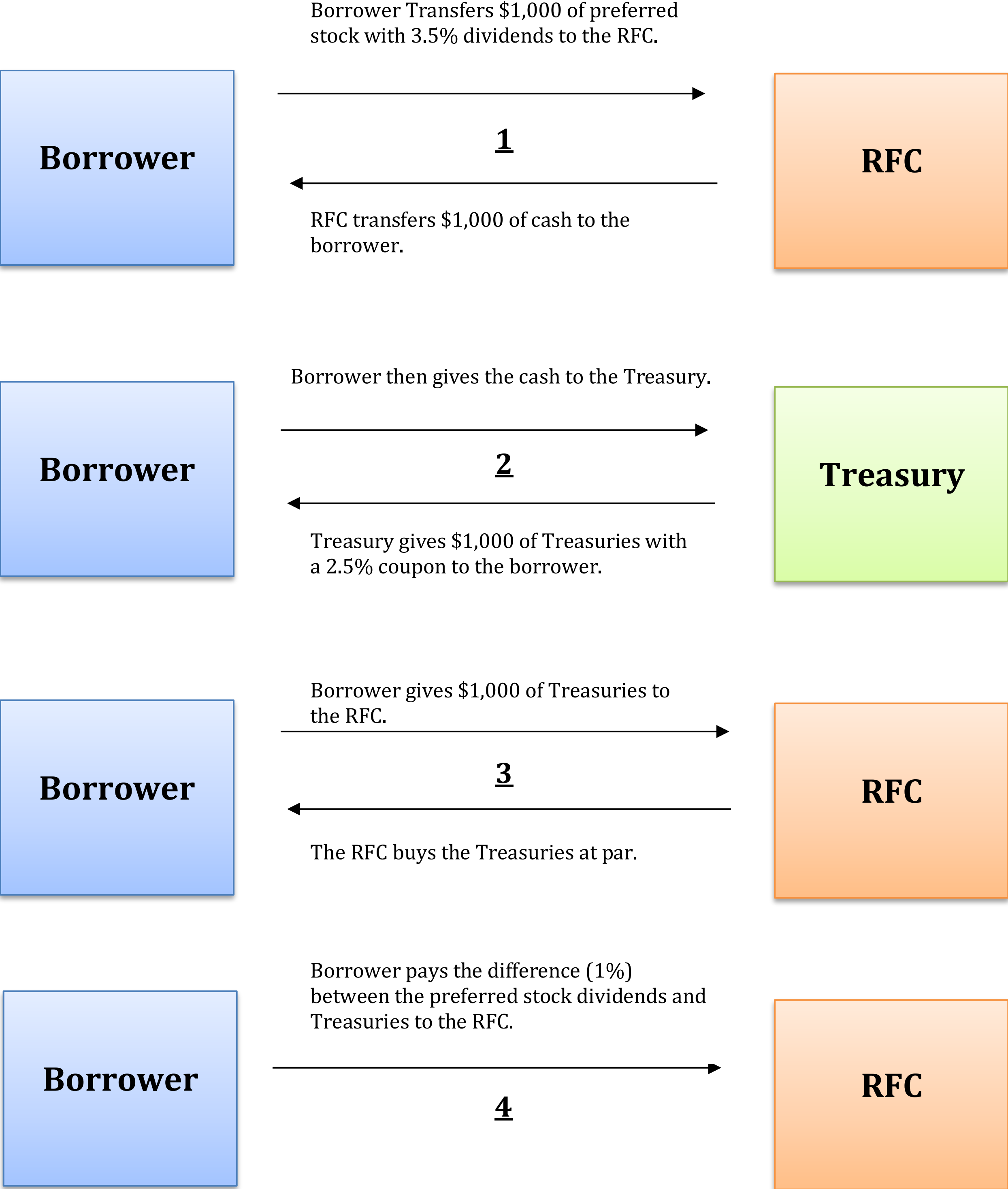
VI. Appendix

Appendix I: RFC-Treasury dividend earmarking process



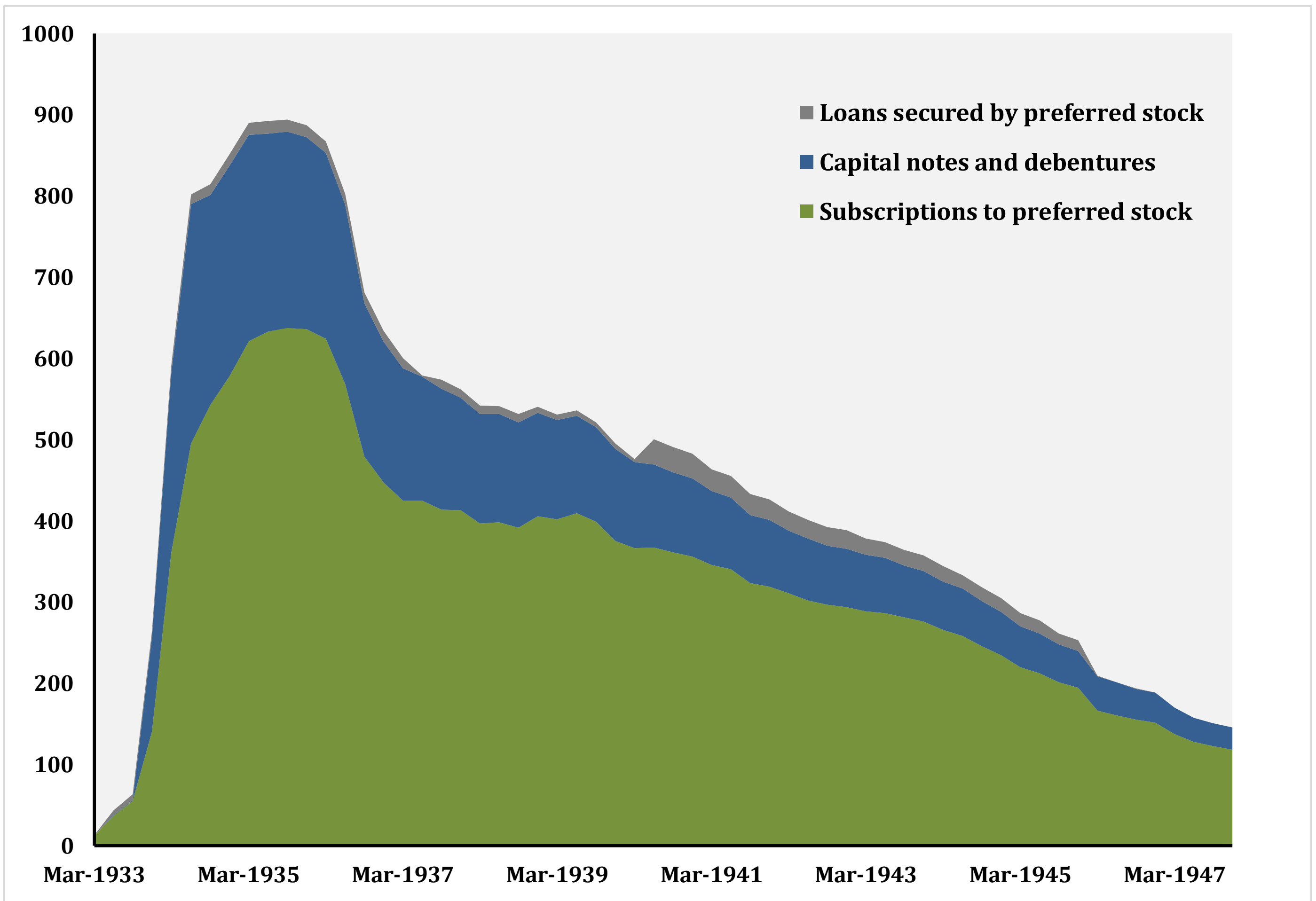
Appendix B: Timeline of RFC Assistance and relevant regulation

November 7, 1931:	The National Credit Corporation, a $500 million private sector-led collateralized lending vehicle, formally opens its doors to lend to distressed financial institutions.
January 22, 1932:	Reconstruction Finance Corporation Act passed. Authorized the creation of the Reconstruction Finance Corporation, a large, collateralized lending vehicle that would provide funds to banks, railroad companies, mortgage lenders, and others.
July 21 1932:	Emergency Relief and Construction Act passed. Mandated the RFC to publish monthly reports on the amount and identity of beneficiaries of RFC assistance. Increased the RFC's borrowing threshold from $1.5 to $3.3 billion.
March 4, 1933:	Franklin Delano Roosevelt is inaugurated.
March 6, 1933:	Proclamation 2039 is signed, declaring a national bank holiday until March 9, 1933, at the end of which a special session of Congress would be called.
March 9, 1933:	Emergency Banking Act passed. Gave the RFC the authority to subscribe to and make loans secured by preferred stock to financial institutions and trusts. Authorized the use of conservatorship for failing financial institutions and broadened the ways in which Regional Federal Reserve banks could lend. FDR extends the bank holiday until Monday, March 13.
March 12, 1933:	FDR's first Fireside Chat, "On the Banking Crisis." Discussed the schedule in which banks would re-open, and that only "sound" banks would be allowed to re-open.
March 24, 1933:	Emergency Banking Act is amended to 1) require the RFC to only purchase non-assessable preferred stock, and 2) allow the RFC to purchase capital notes and debentures of state banks and trusts that were not allowed to issue non-assessable preferred stock.

June 10, 1933:	The Reconstruction Finance Corporation is authorized to subscribe to and make loans secured by non-assessable preferred stock of insurance companies, as well as capital notes and debentures for those that were not able to issue preferred stock, up to a maximum of $50 million.
June 16, 1933:	Glass-Steagall Act passed, which created the Federal Deposit Insurance Corporation (FDIC), separated commercial banking from investment banking, and created the Federal Open Market Committee (FOMC). Also repealed double liability for newly issued national bank shares.
January 31, 1935.	The Reconstruction Finance Corporation is authorized to subscribe to and make loans secured by non-assessable stock of any class of national mortgage associations or other companies that were involved in real estate lending. In the case of companies that couldn't issue non-assessable stock, the RFC was also able to buy capital notes and debentures, up to a limit of $100 million.
August 23, 1935:	Banking Act of 1935 passed, which reorganized the structure of the Federal Reserve by giving more power to the Federal Reserve Board, and effectively eliminated double liability.
June 30, 1947:	The preferred stock authority given to the Reconstruction Finance Corporation was repealed.
July 30, 1953:	Reconstruction Finance Corporation Liquidation Act passed, giving the RFC a final sunset date of June 30, 1954, after which point the Secretary of the Treasury would take over any remaining liquidation duties.
April 29, 1957:	Reorganization Plan No. 1 is passed, formally disbanding the Reconstruction Finance Corporation.

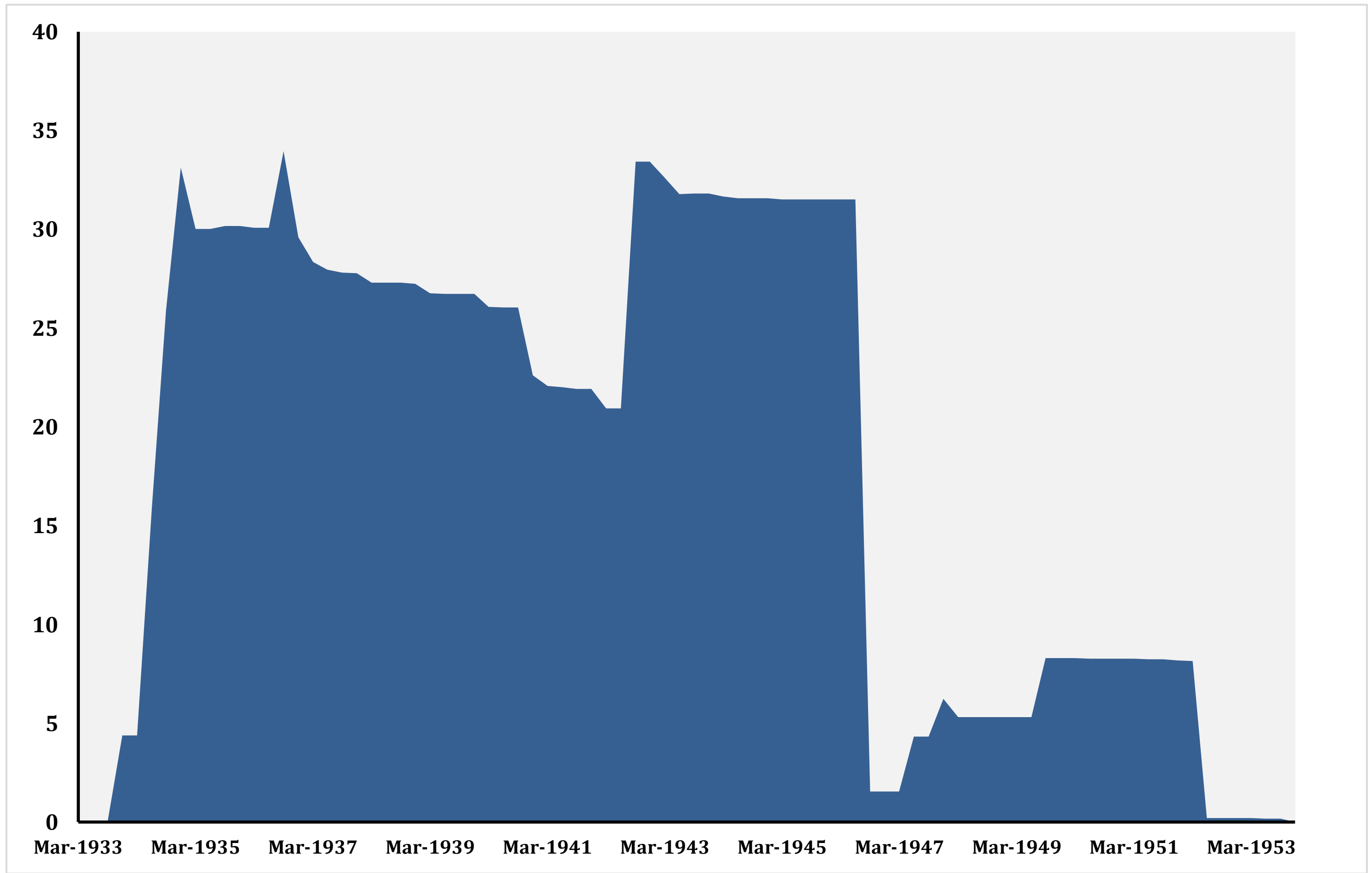
Appendix III: Relevant Charts and Tables

Figure 1: RFC Preferred Stock for Banks and Trust Companies Outstanding ($ Millions)



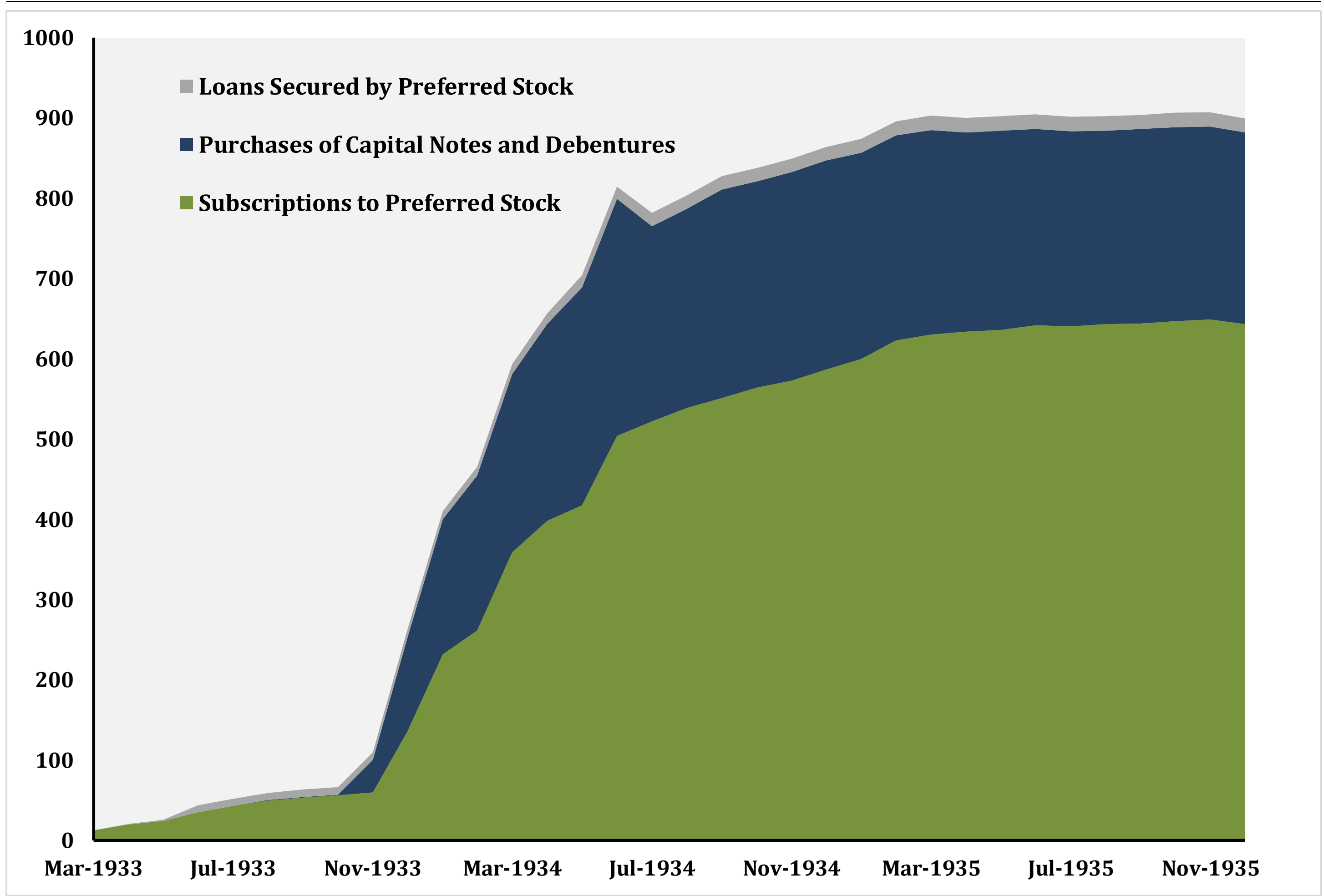
Source: Final Report of the Reconstruction Finance Corporation - pp. 221 - 224

Figure 2: RFC Preferred Stock for Insurance Companies Outstanding ($ Millions)



Source: Final Report of the Reconstruction Finance Corporation - pp. 231 - 232

Figure 3: RFC Preferred Stock Assistance to Banks and Trust Companies (March 1933 - December 1935, $ Millions)



Source: Quarterly Report of the Reconstruction Finance Corporation, December 1935 - pp. 77 - 80

Table 2: RFC Preferred Stock Assistance to National Banks outstanding as of 12/31/1935

National Banks			
State	**Number of banks and trust companies**	**Amount outstanding**	
Alabama	22	$	8,103,126.27
Alaska	1	$	37,500.00
Arizona	2	$	1,340,000.00
Arkansas	22	$	1,425,000.00
California	58	$	19,719,638.96
Colorado	32	$	4,101,000.00
Connecticut	16	$	3,703,426.00
Delaware	4	$	137,300.00
Washington, D.C.	2	$	1,100,000.00
Florida	13	$	1,302,500.00
Georgia	16	$	1,514,500.00
Idaho	9	$	635,279.79
Illinois	119	$	72,810,114.17
Indiana	50	$	6,887,980.00
Iowa	45	$	6,298,400.00
Kansas	46	$	2,265,500.00
Kentucky	28	$	3,182,350.00
Louisiana	14	$	4,340,000.00
Maine	12	$	2,455,600.00
Maryland	13	$	2,636,955.26
Massachusetts	38	$	9,495,615.40
Michigan	50	$	18,112,810.00
Minnesota	91	$	12,499,891.61
Mississippi	15	$	2,647,363.29
Missouri	29	$	4,142,125.00
Montana	16	$	1,069,200.00
Nebraska	48	$	5,098,334.76
Nevada	3	$	175,000.00
New Hampshire	8	$	501,635.00
New Jersey	135	$	29,190,011.91
New Mexico	6	$	401,000.00
New York	236	$	128,125,465.57
North Carolina	18	$	1,767,500.00
North Dakota	29	$	2,022,000.00
Ohio	81	$	22,840,473.00
Oklahoma	40	$	9,039,428.96
Oregon	18	$	702,500.00
Pennsylvania	192	$	19,544,886.50
Puerto Rico	0	$	-
Rhode Island	3	$	648,500.00
South Carolina	6	$	1,505,000.00
South Dakota	30	$	2,753,660.35
Tennessee	27	$	8,040,000.00
Texas	140	$	22,021,022.53
Utah	8	$	1,250,000.00
Vermont	9	$	497,500.00
Virginia	34	$	3,054,740.21
Virgin Islands	1	$	125,000.00
Washington	23	$	2,608,732.88
West Virginia	32	$	2,604,079.03
Wisconsin	55	$	14,655,731.61
Wyoming	9	$	648,358.59
Total	1954	$	471,783,736.65

Source: Quarterly Report of the Reconstruction Finance Corporation, December 1935 – pp. 84 - 85

Table 3: RFC Preferred Stock Assistance to National Banks outstanding as of 12/31/1935

State member banks			
State	**Number of banks and trust companies**	**Amount outstanding**	
Alabama	4	$	1,839,105.50
Alaska	0	$	-
Arizona	0	$	-
Arkansas	5	$	715,000.00
California	5	$	15,446,400.00
Colorado	1	$	200,000.00
Connecticut	0	$	-
Delaware	0	$	-
Washington, D.C.	0	$	-
Florida	1	$	100,000.00
Georgia	6	$	1,135,000.00
Idaho	4	$	775,000.00
Illinois	13	$	2,350,000.00
Indiana	4	$	1,230,000.00
Iowa	4	$	1,070,000.00
Kansas	6	$	172,500.00
Kentucky	2	$	1,500,000.00
Louisiana	3	$	1,775,000.00
Maine	2	$	2,150,000.00
Maryland	4	$	2,300,000.00
Massachusetts	7	$	3,166,000.00
Michigan	30	$	10,071,421.00
Minnesota	4	$	53,000.00
Mississippi	0	$	-
Missouri	19	$	3,171,000.00
Montana	8	$	1,252,500.00
Nebraska	1	$	66,486.00
Nevada	0	$	-
New Hampshire	0	$	-
New Jersey	25	$	18,963,941.64
New Mexico	2	$	32,500.00
New York	56	$	65,800,000.00
North Carolina	3	$	1,700,000.00
North Dakota	0	$	-
Ohio	26	$	28,197,500.00
Oklahoma	0	$	-
Oregon	2	$	38,000.00
Pennsylvania	15	$	9,550,402.67
Puerto Rico	0	$	-
Rhode Island	0	$	-
South Carolina	0	$	-
South Dakota	3	$	55,000.00
Tennessee	2	$	225,000.00
Texas	17	$	445,000.00
Utah	11	$	1,340,000.00
Vermont	0	$	-
Virginia	4	$	2,150,000.00
Virgin Islands	0	$	-
Washington	15	$	1,712,500.00
West Virginia	4	$	615,625.00
Wisconsin	7	$	2,342,500.00
Wyoming	2	$	55,000.00
Total	327	$	183,761,381.81

Source: Quarterly Report of the Reconstruction Finance Corporation, December 1935 – pp. 84 - 85

Table 4: RFC Preferred Stock Assistance to National Banks outstanding as of 12/31/1935

Nonmember Banks			
State	**Number of banks and trust companies**	**Amount outstanding**	
Alabama	38	$	1,136,310.80
Alaska	0	$	-
Arizona	1	$	24,995.39
Arkansas	83	$	2,090,215.43
California	49	$	12,772,000.00
Colorado	23	$	575,000.00
Connecticut	23	$	3,410,500.00
Delaware	7	$	223,000.00
Washington, D.C.	6	$	11,800,000.00
Florida	25	$	588,413.26
Georgia	58	$	1,775,500.00
Idaho	11	$	215,000.00
Illinois	74	$	4,308,500.00
Indiana	216	$	7,841,000.00
Iowa	85	$	2,505,350.00
Kansas	140	$	2,665,000.00
Kentucky	80	$	3,724,000.00
Louisiana	85	$	4,583,500.00
Maine	16	$	4,365,078.08
Maryland	48	$	4,050,000.00
Massachusetts	16	$	2,575,000.00
Michigan	97	$	8,795,580.00
Minnesota	138	$	3,260,500.00
Mississippi	127	$	5,922,500.00
Missouri	158	$	3,778,500.00
Montana	26	$	664,500.00
Nebraska	94	$	1,728,619.48
Nevada	1	$	30,000.00
New Hampshire	1	$	100,000.00
New Jersey	45	$	20,890,928.50
New Mexico	10	$	232,500.00
New York	147	$	33,365,000.00
North Carolina	104	$	3,741,640.42
North Dakota	95	$	1,549,000.00
Ohio	240	$	21,958,000.00
Oklahoma	6	$	60,000.00
Oregon	30	$	957,594.57
Pennsylvania	67	$	14,958,644.11
Puerto Rico	3	$	1,150,000.00
Rhode Island	1	$	250,000.00
South Carolina	27	$	688,300.00
South Dakota	82	$	1,079,500.00
Tennessee	89	$	3,141,600.00
Texas	220	$	6,632,500.00
Utah	18	$	500,000.00
Vermont	51	$	15,235,000.00
Virginia	91	$	4,392,250.00
Virgin Islands	0	$	-
Washington	51	$	1,156,000.00
West Virginia	46	$	2,161,000.00
Wisconsin	321	$	13,743,000.00
Wyoming	10	$	590,000.00
Total	3480	$	243,941,020.04

Source: Quarterly Report of the Reconstruction Finance Corporation, December 1935 – pp. 84 - 85