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# US Reconstruction Finance Corporation: Preferred Stock Purchase Program

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# US Reconstruction Finance Corporation: Preferred Stock Purchase Program[1]

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Yale Program on Financial Stability Case Study
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**Abstract**

By March 1933, the early collateralized lending programs of the Reconstruction Finance Corporation (RFC) had failed to prevent the recurrence of bank runs and panic in US 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, a special session of Congress passed 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. Preferred shares (senior to common shares) protected the government's investment and were non-assessable, meaning the RFC would have no further liability if the companies experienced losses. Subsequent amendments and additions to the EBA in March and June expanded this authority to insurance companies and to other types of securities to enable state banks and trusts to participate. Any institution could file an application to one of the RFC's field offices. The RFC required relatively 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, DC, 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 be eligible only 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, the program was seen as a resounding success and was widely credited with stabilizing the financial system.

**Keywords**: Capital injections, collateralized loans, Great Depression, Jesse Jones, preferred stock, Reconstruction Finance Corporation, RFC, United States

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# US Reconstruction Finance Corporation: Preferred Stock Purchase Program

## At a Glance

| Summary of Key Terms | |
|---|---|
| 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 Great Depression was one of large-scale, collateralized lending to a variety of firms, including state and national banks. By March 1933, conditions had worsened enough for President Franklin Delano Roosevelt to call for a nationwide bank holiday just after his inauguration, from March 6 to March 9.

On the final day of the holiday, a special session of Congress passed the Emergency Banking Act (EBA), which gave the RFC the power to invest in the preferred shares of distressed institutions, among other things.

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. Until that time, banks and trust companies issued equity 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; they were also non-assessable, meaning there was no double liability.

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

The RFC had a network of about 30 field offices located in major cities throughout the US, 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 it. Despite this, the main office in Washington, DC, and the Secretary of the Treasury had to approve larger requests. Dividends were normally just below market rates, but still greater than those on short-term business loans, and were lowered throughout the life of the program.

Participation in the program was slow for the first six months. Participation 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 analysis of the RFC's lending activities prior to the EBA was largely negative, the preferred stock purchase program saw very positive evaluation. though some argued that the Corporation's assistance was too extensive. However, banks that received preferred stock assistance were significantly less likely to fail compared to those that did not. Distribution of the RFC's assistance was criticized as uneven, as the states represented by legislators on key Congressional committees generally received more aid. 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 chairman.

| US Context 1933 | |
|---|---|
| **GDP (SAAR, nominal GDP in LCU converted to USD)** | Data not available |
| **GDP per capita (SAAR, nominal GDP in LCU converted to USD)** | Data not available |
| **Sovereign credit rating (five-year senior debt)** | Data not available |
| **Size of banking system** | Data not available |
| **Size of banking system as a percentage of GDP** | Data not available |
| **Size of banking system as a percentage of financial system** | Data not available |
| **Five-bank concentration of banking system** | Data not available |
| **Foreign involvement in banking system** | Data not available |
| **Government ownership of banking system** | Data not available |
| **Existence of deposit insurance** | Data not available |

# 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 localized 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) and 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". The discussions he had with Federal Reserve Board Governor Eugene Meyer and the chairmen 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 Hoover hoped to re-stimulate the frozen financial system (Olson 1972). 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). In addition, Hoover attempted to persuade the Federal Reserve System to lower the standards for the collateral it would accept for loans (Kroszner 1994). By November 7, the NCC began lending, with the ability to issue up to $1 billion in debt, of which the government expected private banks to purchase up to $500 million (Olson 1972).

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). 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). This rally was short-lived, with equities and bond prices cratering again in November (Kroszner 1994). By the end of 1931, the NCC had issued less than $10 million in loans, despite depositors' continuing to run (Olson 1972; Banking and Monetary Statistics). At this point, it was clear that the NCC had failed, and that more involved government intervention was necessary (Olson 1972).

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. Congress passed the RFC Act on January 22, 1932, and the RFC began operations 11 days later. Initially the RFC was established as a large-scale collateralized lending agency, and it lent extensively to financial institutions (Final Report of the RFC 1959). Some have argued that banks were reluctant to participate in the lending program because RFC loans tended to have short durations (less than six months), and the RFC often imposed both high-quality collateral requirements and higher interest rates than the Federal Reserve (Calomiris et al. 2013). However, scholars have argued more recently that the RFC was lenient about the collateral it accepted in practice and that it allowed banks to roll over six-month loans easily. Instead, the lack of participation can be explained by the fact that the RFC's loans did not guarantee banks' confidentiality, unlike its later preferred stock program (Anbil and Vossmeyer 2020).

One of Franklin Delano Roosevelt's first actions as president was to declare a four-day bank holiday, starting on March 6. At the end of the holiday, Congress would hold a special session 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). The EBA gave the RFC the authority to subscribe to the preferred stock of financial institutions and issue loans secured by such preferred stock (Final Report of the RFC 1959). 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, subscribed by the US Treasury rather than private banks. However, the RFC could have obligations (debts, notes, bonds, et cetera) up to three times this amount outstanding, later increased to 6.6 times (Final Report of the RFC 1959).[3] 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. Treasury was authorized to market these obligations to the public just as they would if they were marketing government bonds or other obligations (P.L. 72-2).

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; P.L. 73-1). 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).

The preferred stock purchase program really began during the nationwide bank holiday. Bank supervisors classified banks as Class A, B, or C banks based on their level of impairment. Banks that were members of the Federal Reserve System submitted applications to their local reserve bank to reopen; those with national banking charters also required the approval of the Office of the Comptroller of the Currency; and nonmember banks applied through their state banking authorities (Conti-Brown and Vanatta 2021; Jones 1951). Class A banks were considered sound and could reopen immediately; Class B banks could still pay off their depositors, but needed fresh capital; and Class C banks were insolvent and needed to be put into conservatorship or receivership (Jones 1951). The directions to examiners emphasized lenience. The Treasury Secretary directed examiners to evaluate soundness based on "fair" appraisals of banks' asset quality, taking into account depressed market conditions, rather than on a "liquidating" basis (Conti-Brown and Vanatta 2021). The Reserve Banks initially objected to this approach, as

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

they were worried that they would be forced to indefinitely support unhealthy banks. In response, Roosevelt told the board that he would persuade Congress to indemnify any losses incurred by the Reserve Banks for emergency loans made, and urged them to use "honest, and, under the circumstances, fairly liberal judgment" in evaluating the distressed banks (Fed Minutes 1933).

In the first of his famed "Fireside Chats," on Sunday, March 12, Roosevelt reiterated that only "sound" banks would be allowed to re-open after the holiday (Jones 1951). Roosevelt specified that banks located in the 12 cities that were home to Federal Reserve Banks would open on Monday, followed by banks located in cities where there was a "recognized clearinghouse" on Tuesday and all other sound banks in the country on Wednesday (Roosevelt 1933a). While more than 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 (Jones 1951). Jesse Jones, chairman 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."

To obtain RFC investment, financial institutions (and later insurance companies and mortgage associations) were required to apply to regional RFC offices for assistance (Circular No. 6). Even after being approved, however, banks were not obligated to issue preferred stock to the RFC. According to Jones, "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).

All banks, including those that were newly formed or closed, were eligible for support. Applicants had to include copies of their charters, authorizations from the bank's board of directors for issuing preferred stock, bank examiners' reports, detailed financial information, and other documents (see Key Design Decision No. 7 for more detail). Additionally, applicants had to prove that they would be able to pay dividends of 6 percent on the preferred equity, which was the maximum allowed under the Emergency Banking Act (Circular No. 6; Jones 1951). Payment for these dividends would be deposited to the RFC's account at each of the Federal Reserve Banks (Jones 1951).

The RFC described its procedures in a public circular issued on March 9, the same day Congress passed the EBA. 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. 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 (Circular No. 6).

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 injecting capital only into institutions whose sound asset value equaled that of their liabilities (Circular No. 6). 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). (He later attempted to persuade 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). 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. 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 (Circular No. 6).

In addition to these financial protections, the stock also required several miscellaneous conditions, 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.[4]

(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 (Circular No. 6).

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 6 percent, carry significant voting rights, and be non-assessable (P.L. 72-2). 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). The use of assessable stock was still quite popular in the years leading up to the initial financial panic. In the crisis, however, use of assessable stock, similar to the widespread use of double liability prior to the crisis, would quickly taper off (Miller and Macey 1992). Double liability enabled shareholders to be called on to provide capital in the case of a shortfall.

RFC preferred stock was senior to common stock and cumulative, meaning that institutions that received it could not pay dividends on common stock until the par value and all

[4] 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.

dividends had been paid. 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 (P.L. 72-2).

The RFC was authorized to write loans secured by this preferred stock, and banks applied for these loans in the same way they applied for preferred stock. Loan applicants also needed to provide statements of the terms of the loan, their financial condition, and the additional collateral they could offer in addition to the preferred stock. Unlike its preferred stock subscriptions and direct purchases of capital notes and debentures, these loans could be secured by assessable stock (Circular No. 6). The RFC would also often buy preferred stock and issue a bank a loan at the same time (Jones 1951).

Two-thirds of the institutions that received RFC assistance were state banks. However, most states prohibited state-chartered banks and trusts from issuing preferred stock at the time (Circular No. 6). 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-like but potentially loss-bearing instruments—capital notes and debentures—that would be purchased directly by the RFC. Similar to the preferred stock, these instruments ranked higher than common equity in a bank's capital structure. They could also be sold on the open market by the RFC (P.L. 73-4).

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 when receiving RFC assistance (Circular No. 8). (See Key Design Decision No. 13 for more information.)

At the end of January 1935, Congress extended the scope of the RFC's authority to include national mortgage associations, mortgage loan companies, trust companies, savings and loan associations, and similar institutions whose primary focus was dealing in real estate. 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 (P.L. 74-2). 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).

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". 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. Jones specified that this was principally to reduce stigma, or "to take the curse off the many weaker banks which did need new capital" (Jones 1951).

## Outcomes

From 1933 to 1945, the RFC disbursed $1.17 billion in aid to 7,389 state and national banks and trust companies (see Figure 1), an amount that represented about one-third of total capital in the U.S., as of 1933[5] (Final Report of the RFC 1959; Friedman and Schwartz). 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 1959). 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).

The records of the RFC do not provide a state-by-state breakdown of loans on and subscriptions for preferred stock and outright purchases of capital notes and debentures. All three types of authorization were often made in a single state, and some institutions were granted more than one type of authorization. Subscriptions of and loans secured by preferred stock were used for national banks and those state banks that could issue preferred stock. Purchases of capital notes and debentures were used almost exclusively for state banks that could not issue preferred stock due to state banking regulations (Final Report of the RFC 1959).

**Figure 1: Summary of RFC Preferred Stock and Other Capital Assistance to Banks and Trust Companies**

| Measure | No. of borrowers | Authorized | Disbursed |
|---|---|---|---|
| Subscriptions of preferred stock | 4,202 | $859.6 million | $782.2 million |
| Loans secured by preferred stock | 274 | $52.7 million | $45.1 million |
| Purchases of capital notes, debentures | 2,913 | $433.92 million | $343.3 million |
| Total | 7,389 | $1.35 billion | $1.17 billion |

*Source: Final Report of the RFC 1959.*

[5] Applicants were not limited to receiving one type of aid (in other words, 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 1959).

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. After a pair of speeches given by Jones at the American Bankers Association meeting in September of that year, the RFC saw a sharp uptick in applications, processing as many as 100 a day throughout the rest of 1933 (Jones 1951). The RFC authorized nearly 2,300 applications in the fourth quarter of 1933 (Final Report of the RFC 1959).[6]

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 1959). 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 et al. 2013).

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-like 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). Dividends were originally set at 5 percent, but were subsequently lowered to 4 percent, then 3.5 percent. Jesse Jones remarked that bankers wanted the RFC to lower them a further 50 basis points (bps), but the Corporation refused, offering 3 percent only if beneficiaries agreed to pay dividends promptly, as they were often 10 to 60 days late. While bankers initially 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 (Jones 1951).

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 1959). Institutions in New York, Wisconsin, Pennsylvania, Texas, and Ohio used the most RFC assistance (Final Report of the RFC 1959). New York state banks, in particular, made up half of the amounts disbursed for the outright purchase of capital notes and debentures (Final Report of the RFC 1959). 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 Depression 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). President Roosevelt initially opposed federal deposit insurance, citing several state deposit insurance policies that failed due to weak banks "draining" the stronger ones (Jones 1951). Roosevelt ultimately approved the Glass-Steagall Act on June 16, 1933, which created the Federal Deposit Insurance Corporation (FDIC) (Jones 1951). Both member and non-member banks of the Federal Reserve system that applied for deposit insurance were

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

required to buy capital stock in the FDIC equal to 0.5 percent of their total deposit liabilities. Increases and decreases in their deposit bases were met with corresponding increases and decreases in their holdings of FDIC capital stock. The FDIC officially began its operations on January 1, 1934. After this date, FDIC membership was required of all banks in the Federal Reserve System. 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 (P.L. 73-66).

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 2,000 banks that remained in the RFC's bank "hospital" group would not qualify for deposit insurance unless they recapitalized. To prevent this, Treasury Secretary Henry 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 (Jones 1951). FDIC membership was required to obtain and maintain membership in the Federal Reserve System. 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).

Many institutions were still struggling to lend profitably by 1936 and would retire their RFC capital without first replacing it with private capital. To remedy this, the RFC said that they would accept US 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 (Jones 1951). This process worked similarly to a modern day repurchase agreement. Instead of retiring its capital, a bank would purchase Treasuries with its cash and refinance the purchase through the RFC. The RFC would buy the Treasuries from the bank - essentially extending a secured, repo loan – and the bank pays a repo rate, set at the Treasury rate. The bank would repurchase the Treasuries when it really does retire the RFC capital.

At the time, the widespread use of double liability in the US 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).[7] 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. 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 (Miller and Macey 1992). 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 1936). As a result, Congress quickly acted and passed laws in 1933 and 1935 that de facto

[7] 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.

removed double liability from most of the banking system, before formally abolishing it on May 18, 1953 (P.L. 83-28).[8]

The RFC envisioned an approximately 20-year horizon in which banks would retire their preferred stock (Jones 1951). 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; Circular No. 6). By the end of September 1953, the RFCs holdings of financial institution securities had dwindled to about $45.5 million, representing interest in 35 institutions. For these remaining banks, the RFC assisted them in either obtaining private capital or creating plans that would enable them to retire their government obligations. By June 30, 1957, only two banks had any RFC obligations outstanding, representing just $4.8 million (Final Report of the RFC 1959).

## II. Key Design Decisions

### 1. Part of a Package: The preferred stock purchase program was part of a package of measures that included the establishment of a conservatorship authority, broadening of the Fed's emergency lending capabilities, and the promise of federal deposit insurance.

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 1959). However, these loans were generally very short term, strictly collateralized, and given at penalty rates. In particular, encumbering their higher quality assets as collateral for borrowings may have impaired the banks' ability to access other sources of funding. For these reasons, these loans could not address the growing insolvency of the nation's banks. Banks that received such assistance often became more indebted and in effect subordinated their depositors, resulting in an even greater risk of a run (Calomiris et al. 2013).

As a result, Title III of the Emergency Banking Act (EBA), 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).

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. The conservator essentially had the same powers that a receiver of an insolvent bank would have, including liquidation authority (P.L. 73-1).

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[8] 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 – p. 31).

Title IV of the EBA 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 1 percent above the "established rate" to member banks that were unable to find credit elsewhere (P.L. 73-1). It 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.

2. **Legal Authority: 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". Section 304 also permitted the RFC to sell any or all of the preferred stock obtained via these methods in the open market (P.L. 73-1).

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 was extended to both insurance companies and national mortgage associations (P.L. 73-35; P.L. 74-2).

3. **Communications: The Corporation was required to submit quarterly reports to Congress, as well as create a final report prior to its dissolution. President Roosevelt and Jesse Jones were very active in persuading banks to participate in the preferred stock program.**

Sections 14 and 15 of the Reconstruction Finance Corporation Act laid out the reporting obligations for the RFC. Section 14, which set a 10-year sunset date for the Corporation, also mandated that a final report be submitted to Congress before the dissolution of the Corporation. Section 15 required the Corporation to make mandatory quarterly reports to Congress that contained: 1) the aggregate loans made to each class of borrower, 2) the balance sheet of the corporation, and 3) the names and exact compensation of any employees of the RFC making more than $400 a month (P.L. 72-2).

On March 6, President Roosevelt issued Proclamation 2039, which declared a four-day bank holiday so that the US government could better address the collapsing financial system (Proclamation 2039). While several states had already declared their own bank holidays, Proclamation 2039 "turned a maze of state restrictions into a uniform national policy" (Silber 2009). 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).

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 reopen the banks following the Emergency Banking Act and instead extended the holiday for three additional days until March 13 (Silber 2009). President Roosevelt and Chairman Jesse Jones were also active in emphasizing the importance of rescuing "sound" banks while still soliciting as many applicants for the RFC 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" (Roosevelt 1933b).

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" (Roosevelt 1933b). 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," in which 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. Banks that were in the 12 cities where there were Federal Reserve Banks 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. 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]". To stoke confidence, Roosevelt said, "I can assure you that it is safer to keep your money in a reopened bank than under the mattress" (Roosevelt 1933a).

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 moral guarantee by the government on the deposits in the banks that it permitted to reopen after deciding them to be sound. Bankers believed that, since Roosevelt communicated that re-opened banks would be "100 percent sound and assured of sufficient currency to meet all obligations," they would be safe (Silber 2009). 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; Silber 2009).

When much of the banking system re-opened on March 13, depositors all across the country waited outside of banks to return their money. More than half of the deposits taken out in the bank run had been redeposited within two weeks of the end of the bank holiday. 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 rising by 15.34 percent. 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).

Even after the Emergency Banking Act, the banking holiday, and the reassurance of FDR's Fireside Chat in March 1933, the RFC was still having trouble soliciting applicants for its capital assistance programs (Jones 1951). Jones made two nationwide radio addresses on August 1 and November 1, 1933 (Jones 1933). 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).

After the first radio address, Jones gave a speech at the American Bankers Association convention on September 5 where he "advised the bankers to 'be smart, for once'," which did not play well among the members. 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" (Jones 1951). FDR briefly discussed eligibility for deposit insurance, which was scheduled to go into effect at the beginning of 1934, 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" (Roosevelt 1933c). This, in conjunction with Section 12B(i) of the Glass-Steagall Act, 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).

With the establishment of Glass-Steagall, contentious speeches by Jones, FDR's radio address, as well as Jones' successful push to involve the larger banks in New York and Wall Street (see Key Design Decision No. 9 for more details), the RFC saw a dramatic increase in applications for its preferred stock program. The organization processed as many as 100 applications a day until the end of 1933 (Final Report of the RFC 1959). By the end of 1933, the RFC had disbursed about $264 million in preferred stock aid, compared to $63 million at the end of the third quarter.

4. **Administration: 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, a governor of the Federal Reserve Board and the Farm Loan Commissioner were also members of the RFC's board of directors (P.L. 72-2); Federal Reserve Board Chair Eugene Meyer was the first chairman. This was done in part because of the "urgent requirements of the moment," and because the RFC would need "great help from the Federal Reserve System," according to Meyer. After six months, Meyer felt that the RFC had developed enough for him to request to be removed (Meyer 1954). This was done via the Emergency Relief and Construction Act on July 21, 1932, which replaced Meyer and the Farm Loan Commissioner with two more political appointees (P.L. 72-302). Of the six other members of the RFC's board, no more than four could be of the same political party, and only one member per Federal Reserve district was permitted. Each board member had a two-year term and earned $10,000 a year for their service (P.L. 72-2).

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". Proceeds from loans were generally disbursed through the Reserve Banks and their branches. Additionally, these banks held the primary obligations of borrowers, and any collateral pledged to the RFC for loans (Circular No. 4).

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. After the request was made, the president could approve or disapprove the aid (Circular No. 4).

Early on, the RFC approved two separate loans totaling about $90 million for the Central Republic Bank of Chicago, headed by former U.S. Vice President Charles Dawes, who had briefly served as RFC Chairman. This rescue was quite controversial, as many believed that Dawes used his political clout to get the assistance. This rescue led Congress to pass the Emergency Relief and Construction Act of 1932, which required the RFC to publish the name of any RFC beneficiaries in its monthly reports to Congress (Mason 2003; P.L. 72-302).

The decision to publicize the names of borrowers generated considerable controversy both in Congress and in "almost every community where there was a bank". Senator Henry Steagall and Speaker of the House 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". A bill was passed that retroactively published the names of borrowers despite Congressional opposition (Jones 1951).

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). However, the collateral requirements were not specified, and only RFC staff were allowed to evaluate institutions. Last, 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 (Mason 2001b). This design allowed the RFC to exercise more flexibility and independence without fear of having to return to Congress for additional funds.

### 5. Administration: 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 around 30 field offices across the US and one in Puerto Rico that were given a large amount of autonomy over which institutions would receive aid (Circular No. 4; Mason 2001b). 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). These loan managers could approve direct business loans of up to $100,000. Anything greater than this amount, required the manager to defer to the central office in Washington to make the decision. 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 (Mason 2001b)."

At a minimum, there would be at least one RFC office in every Federal Reserve district. 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 (Mason 2003).

**6. Size: Congress authorized the RFC to issue up to $500 million in capital stock and leverage up to three times, later increased to 6.6 times.**

The RFC was allowed to subscribe to preferred stock, make loans secured by preferred stock, and directly purchase capital notes and debts. 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 (Circular No. 4). (See Key Design Decision No. 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 any other obligation (P.L. 72-2). 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). With a capital stock of $500 million subscribed to from the Treasury, this meant that the maximum amount the RFC could lever itself started at $1.5 billion and ended at $3.3 billion (P.L. 72-2).

**7. Sources of Funding: The RFC financed its operations primarily by issuing government-guaranteed debt and via an initial subscription by Treasury to its capital stock of $500 million.**

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 1959). 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). 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).

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. Banks and other institutions that the RFC had invested in bought the public securities. These were typically for terms of one to three years and carried interest rates that ranged from 0.875 to 3 percent (Final Report of the RFC 1959). 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 3.5 percent.

**8. Eligible Institutions: Initially, all state and national banks and trusts were eligible to apply for RFC preferred stock aid and were categorized based on bank examiners' evaluation of their soundness during the March 1933 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. During the initial evaluation of the banking system, all national banks were classified as Class A, B, or C banks. Class A banks were considered sound and were reopened immediately after the bank holiday ended. Class B banks were undercapitalized but still had enough franchise value and were reopened "as quickly as they could be got into shape". Class C banks were insolvent, and there was already a clear loss to depositors. These banks were placed into conservatorship so that they could be either rehabilitated or liquidated, depending on the severity of their impairment (Jones 1951).

Subsequent to the EBA, the RFC sent teams of examiners to determine if applicants were sound enough to lend to (Olson 1988). Despite FDR's assertion in his first Fireside Chat that only sound banks would reopen, "it developed that probably no fewer than 5,000 of these banks [required] considerable added capital to make them sound" (Jones 1951) This caused the RFC to establish a standard in which they would provide assistance to an institution only if the "sound value" of its assets was greater than or equal to its liabilities (Circular No. 6). In Jesse Jones' recounting of the program, he specified that these banks required only a 90 percent ratio of sound asset value to liabilities (Jones 1951). In other words, corporations whose assets equaled 90 percent of their liabilities, according to Jones, were eligible for RFC assistance. 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).

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

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. Jones encouraged these larger banks to take capital "to take the curse off the many weaker banks which did need new capital" (Jones 1951).

Ultimately, two-thirds of the banks that applied and received RFC assistance were state banks, while the rest were national banks (Jones 1951).

Institutions in New York and on 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". Later in 1933, 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. National City Bank and Chase National each obtained $50 million in preferred stock and reduced the amount of common equity in their capital structures (Jones 1951).[9]

**9. Eligible Institutions: The RFC 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 preferred stock that was exempt from double liability to shareholders. 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. This authority had a limit of $50 million outstanding (P.L. 73-35).

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. Where market value couldn't be obtained, the sound value of the assets would be used (Circular No. 8).

According to page 3 of the Circular No. 8, 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.

(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.

(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.

(4) A copy of the applicant's latest examination report.

(5) Copies of the applicant's convention reports as filed with the superintendents of insurance of the various States for the last preceding five 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 four months prior to the date of application.[10]

(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.

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[9] 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.

[10] 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.

(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.

(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, 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.

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, if either any "officer, director, or employee" of the insurance company made $17,500 or more a year. 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. 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. Unlike banks and trusts, who had to show that their earning capacity was sufficient enough to support annual dividend payments of up to 6 percent, insurers were required to demonstrate only ability to pay up to 5 percent dividends for the first five years (Circular No. 6; Circular No. 8). However, after this point, this threshold was bumped up to 6 percent (Circular No. 8).

**10. Eligible Institutions: The RFC 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". 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 (P.L. 74-2). 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).

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. 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. The RFC ultimately subscribed about $46 million in the capital stock of the two mortgage lenders and disbursed more than $1.7 billion in loans. This funding was used to purchase hundreds of thousands of mortgages, including those insured by the

Veterans Administration and the Federal Housing Authority (Final Report of the RFC 1959).

**11. Eligible institutions: Injections were based on need, and institutions had to apply and be approved by the RFC 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 (Circular No. 6). 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 (Circular No. 6).

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 (Circular No. 6 ).

Even though there was a clear application process and obvious need for assistance across the financial sector, many banks did not immediately apply to the RFC. In fact, prior to the advent of the FDIC at the beginning of 1934, many banks conserved their liquidity in case a run occurred. "A few [banks] even solicited deposits with the boast that they were 75 percent liquid. One bank, which had amassed an uncommonly large surplus, bragged of being 110 percent liquid". 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 (Jones 1951).

**12. There were no individual participation limits for applicants.**

No further detail has been found for limits on individual participation amounts.

**13. Capital Characteristics: Initially, the RFC could subscribe to or issue loans secured by cumulative non-assessable preferred stock; Congress later expanded**

**eligible capital to allow the RFC to recapitalize state banks, trusts, and other types of financial companies.**

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). On March 24, 1933, an amendment to the EBA was passed, clarifying that, for state banks and trust companies, the RFC could subscribe only to preferred stock that was non-assessable (P.L. 73-4).[11] However, the RFC could still make loans secured by assessable preferred stock (Circular No. 6). 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). 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 other types of equity, with dividends being paid out annually and usually at less than 1 percent below market rates, but greater than those on short-term business loans (Mason 2001b; Calomiris et al. 2005). While the original Emergency Banking Act stipulated that applicants needed to be able to pay out dividends of up to 6 percent, dividends were quickly started at 5 percent and were subsequently reduced to 4 and then 3.5 percent (Mason 2001b). Banks wanted the RFC to lower them to 3 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. Only institutions that repaid on time were given the lower rate (Jones 1951).

Interest rates on loans secured by preferred stock of trust companies, which were heavily involved in the mortgage market, were set at 4 percent until March 31, 1939, at which point they would increase to 5 percent. In the case of preferred stock subscriptions or direct purchases of capital notes and debentures, the dividends (or interest rates) would be set at 4 percent through January 31, 1935, before falling to 3.5 percent through January 31, 1940, and subsequently returning to 4 percent after that date (Circular No. 18).

Despite a massive infusion of RFC capital, bank lending was still lacking by 1936 (Circular No. 18). Banks often retired RFC capital without replacing it with private capital. As a result, a bank's overall capital would fall when it retired its RFC capital. To counter this trend, 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. Essentially, this arrangement worked similarly to a modern-day repurchase agreement. Using the cash received by the RFC from its preferred stock investment, the bank would buy Treasuries and sell them to the RFC – effectively extending a secured loan to the bank. The rate on this "repo" loan would be set at the

[11] 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.

Treasury rate, and the bank would repay the loan when it retired the RFC capital, thereby decreasing its overall funding costs.

**14. Other Conditions: 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 forcing actions 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" (Circular No. 6).

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 (Circular No. 6).

For the first case, the RFC analyzed the remaining capital structure to see if its investment would be sufficiently protected. For the second, protection for the RFC investment was to be provided by either: (1) the purchase by stockholders, depositors, or others of additional common or subordinated preferred stock, or (2) voluntary subordination or reduction by creditors or depositors of their claims against the applicant. 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. These banks would then solicit additional common and/or subordinated preferred stock in the same way that institutions did in the second category (Circular No. 6).

**15. Other Conditions: 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 to receive RFC aid. As stated in Circular No. 6, 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.[12]

(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.

[12] For trust companies, there was no maximum on common stock dividends set (Circular No. 18).

(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.

In addition to the above requirements, 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 [6 percent] per annum" (Circular No. 6).

**16. Exit strategy: There was no explicit exit strategy for the preferred stock purchase program, though Jesse Jones anticipated a 20-year horizon. However, the RFC itself initially had a 10-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, where the most powerful banks were located, repaid their preferred stock by July 1934, less than a year after they had received it. However, Jesse Jones 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 20 years without, meantime, depriving their common stockholders of dividends". Participating banks ultimately repaid their preferred stock issued to RFC at a much faster rate. All but 392 of the more than 6,000 participating banks retired their RFC capital by 1951 (Jones 1951).

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. However, the previous authorities that allowed the RFC to make loans to financial institutions were extended on that same date (P.L. 80-132). 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 1959).

As for the RFC itself, Section 4 of the Reconstruction Finance Corporation Act specified that "the corporation shall have a succession period of 10 years from the date of the enactment hereof, unless it is sooner dissolved by an Act of Congress" (P.L. 72-2). The initial 10-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.[13]

After a series of legislations 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). 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 of 1957).

[13] 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). Last, an Act passed on May 25, 1948, further extended the Corporation's lifespan through June 30, 1956 (P.L. 80-548).

**17. Relevant regulatory changes: Following the Emergency Banking Act, the system of double liability for newly issued shares and depositors was removed, and the Federal Deposit Insurance Corporation was created.**

Prior to the Depression, most of the US 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. A large number of people had bought bank stock in the boom prior to the Depression and, when those investors became seriously financially impaired, the system of double liability served to only further strain them. 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 (Miller and Macey 1992).

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). 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 (Miller and Macey 1992).

The creation of the FDIC via Section 12(b) of Glass-Steagall was another pivotal moment in the government's efforts to fight the Depression (P.L. 73-66). 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; P.L. 73-66). However, there were still thousands of banks in December 1933 that were still in the "hospital" and would not qualify for deposit insurance. President 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. There was fear among some administration officials that "another bank debacle would occur if, suddenly, it had to be made known to the public that some 2,000 banks could not qualify for deposit insurance". In late December, Jesse Jones and Treasury Secretary Henry Morgenthau quickly hammered out an agreement for these hospital banks. Treasury 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 (Jones 1951).

## III. Evaluation

Some have argued that because RFC's pre-Emergency Banking Act lending programs 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, banks were reluctant to participate (Calomiris and Mason 2013). More recently, scholars have argued that the RFC was lenient with actual collateral accepted and allowed banks to roll over six-month loans easily (Anbil and Vossmeyer 2020). They suggest that the RFC's loans, in comparison with its later preferred stock program, did not have a guarantee of confidentiality for the borrowing banks and this significantly reduced participation at the RFC.

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. Ultimately, however, most observers had concluded that the double liability system was effective prior to the Great Depression (Miller and Macey 1992). 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". These results ultimately did not hold for the 1930s, 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.

Regarding the bank holiday in March 1933, Ben Bernanke (1983) explained that, "although the government's actions set the financial system on its way back to health, recovery was neither rapid nor complete". To illustrate this point, Bernanke cites the massive number of banks that either did not re-open or did so on a restricted basis, 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. Additionally, he cites multiple studies that find that the supply of credit to smaller firms, even after the bank holiday and preferred stock purchases, was still restricted, even to firms that were solvent.

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" (Mason 2001a). The risk profile of applicants who were accepted suggests that they were "of middling risk," and that the RFC did not try to save completely insolvent institutions, though they did lend to closed banks undergoing liquidation (Calomiris et al. 2013; Final Report of the RFC 1959). Despite the potential for the RFC to be swayed by political influence, the organization's aid decisions did not appear to be thusly affected (Mason 2001b). Mason (2001b) argues that was due to three factors:

(1) RFC aid was required to be "fully and adequately secured," and this determination could be made only 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.

(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.

(3) Decision-making, generally, was "devolved to the regional level wherever possible." While there was a main loan office in Washington, DC, the regional offices could approve loans up to $100,000 without approval from Washington. 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.

Mason (2001b) also mentions 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. However, he agrees 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.

Calomiris et al. (2013) examine the effectiveness of RFC loans and preferred stock assistance on a sample of 209 Federal Reserve member banks in Michigan during the 1930s. The authors determine 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. In addition to addressing the likelihood of bank failure, they also find 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".

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). In general, evidence of political influence for RFC preferred stock investments appeared to be mixed. Kroszner (1994) finds that states that had representatives on the House Banking and Currency Committee obtained significantly more RFC assistance than states without. Conversely, no such relationship was found for states that had only senators on the Senate Banking Committee. Mason (2003), on the other hand, adds additional parameters to the earlier models, and finds that no such relationship existed and that "political variables appear to be poor predictors of the distribution of RFC loan assistance".

Walker F. Todd, former assistant general counsel at the Federal Reserve Bank of Cleveland (1992), presents a more critical view of the RFC, citing that the preferred stock program was "one step short of nationalizing the banking system". Conversely, he offers praise to Jesse Jones, saying that modern circumstances would "make it difficult to appoint anyone comparable to him today". Last, Todd remarks 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.

The overall evaluation of the preferred stock program suggests 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 required multiple attempts by Jesse Jones and Roosevelt to persuade troubled institutions to apply.

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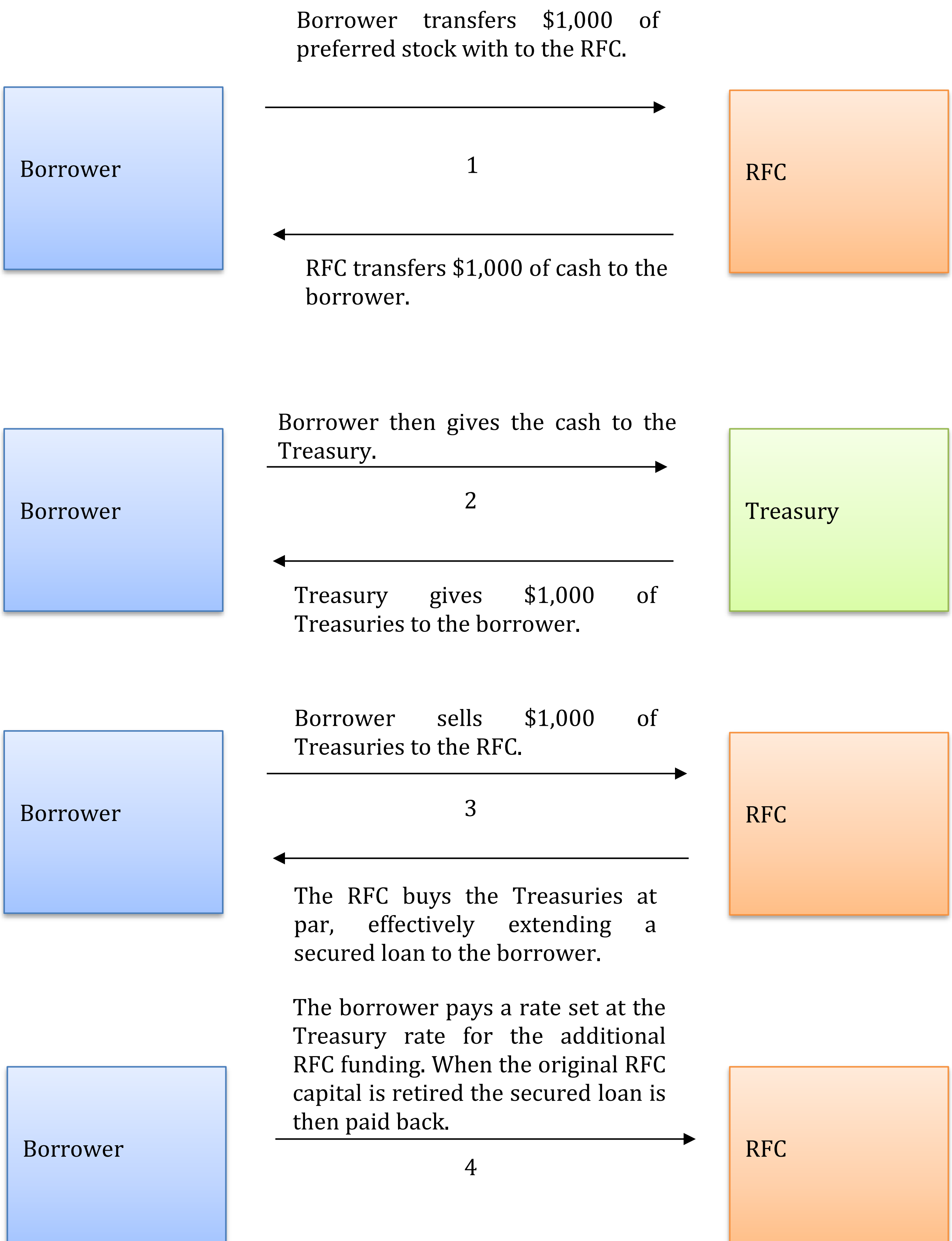
"Final Report of the Reconstruction Finance Corporation." Reconstruction Finance Corporation. May 6, 1959. https://ypfs.som.yale.edu/library/final-report-reconstruction-finance-corporation.

# VI. Appendixes

## Appendix A: RFC–Treasury dividend earmarking process



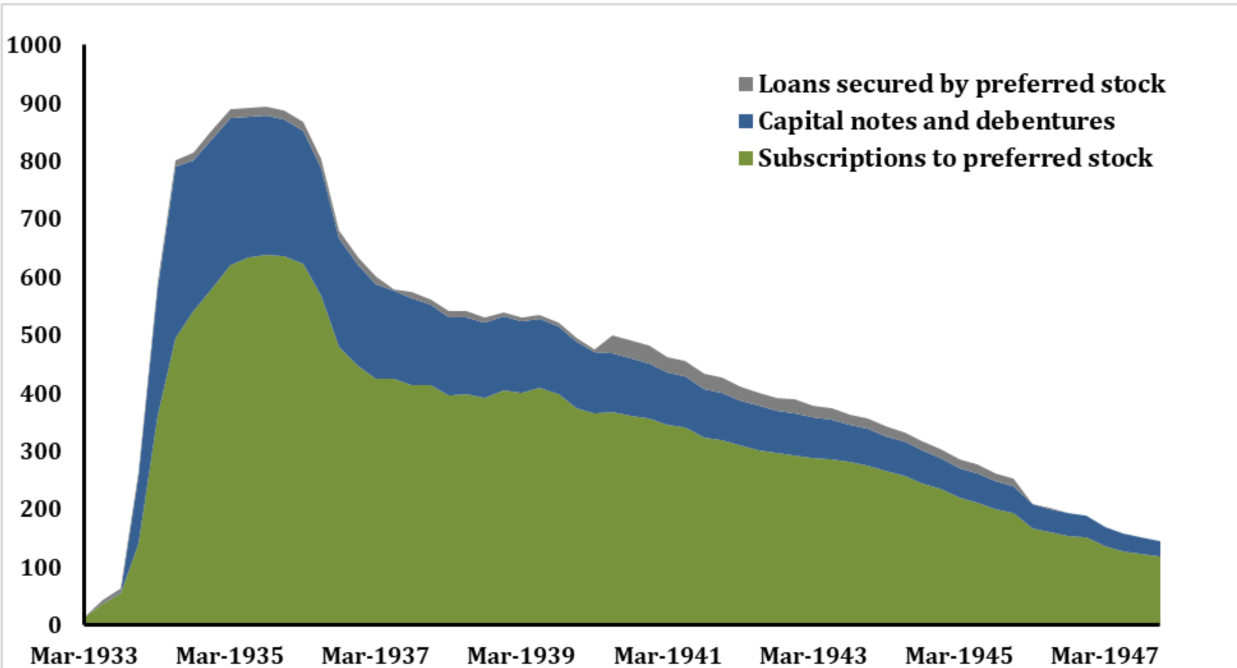
# Appendix B: Timeline of RFC assistance and relevant regulation

| | |
|---|---|
| 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: | The Reconstruction Finance Corporation Act is passed. It authorizes the creation of the Reconstruction Finance Corporation, a large, collateralized lending vehicle that will provide funds to banks, railroad companies, mortgage lenders, and others. |
| July 21 1932: | The Emergency Relief and Construction Act is passed. It mandates the RFC to publish monthly reports on the amount and identity of beneficiaries of RFC assistance and increases the RFC's borrowing threshold from $1.5 billion to $3.3 billion. |
| March 4, 1933: | Franklin Delano Roosevelt is inaugurated. |
| March 6, 1933: | FDR signs Proclamation 2039, declaring a national bank holiday until March 9, 1933, following which a special session of Congress will be called. |
| March 9, 1933: | The Emergency Banking Act is passed. It gives the RFC the authority to subscribe to and make loans secured by preferred stock to financial institutions and trusts. It authorizes the use of conservatorship for failing financial institutions and broadened the ways in which regional Federal Reserve Banks can lend.<br><br>FDR extends the bank holiday until Monday, March 13. |
| March 12, 1933: | FDR's delivers his first Fireside Chat, "On the Banking Crisis." He discusses the schedule on which banks will re-open and announces that only "sound" banks will be allowed to re-open. |
| March 24, 1933: | The Emergency Banking Act is amended to (1) require the RFC to purchase only non-assessable preferred stock, and (2) allow the RFC to purchase capital notes and debentures of state banks and trusts that are 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 institutions that are not able to issue preferred stock, up to a maximum of $50 million. |
| June 16, 1933: | Banking Act of 1933, the Glass-Steagall Act, is passed, which creates the Federal Deposit Insurance Corporation (FDIC), separates commercial banking from investment banking, and creates the Federal Reserve's Federal Open Market Committee (FOMC). It also reveals 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 are involved in real estate lending. In the case of companies that cannot issue non-assessable stock, the RFC is also able to buy capital notes and debentures, up to a limit of $100 million. |
| August 23, 1935: | The Banking Act of 1935 is passed, which reorganizes the structure of the Federal Reserve by giving more power to the Federal Reserve Board, and effectively eliminates the double liability system. |
| June 30, 1947: | The preferred stock authority given to the Reconstruction Finance Corporation is repealed. |
| July 30, 1953: | The Reconstruction Finance Corporation Liquidation Act is passed, giving the RFC a final sunset date of June 30, 1954, after which point the Secretary of the Treasury will take over any remaining liquidation duties. |
| April 29, 1957: | Reorganization Plan No. 1 is passed, formally disbanding the Reconstruction Finance Corporation. |

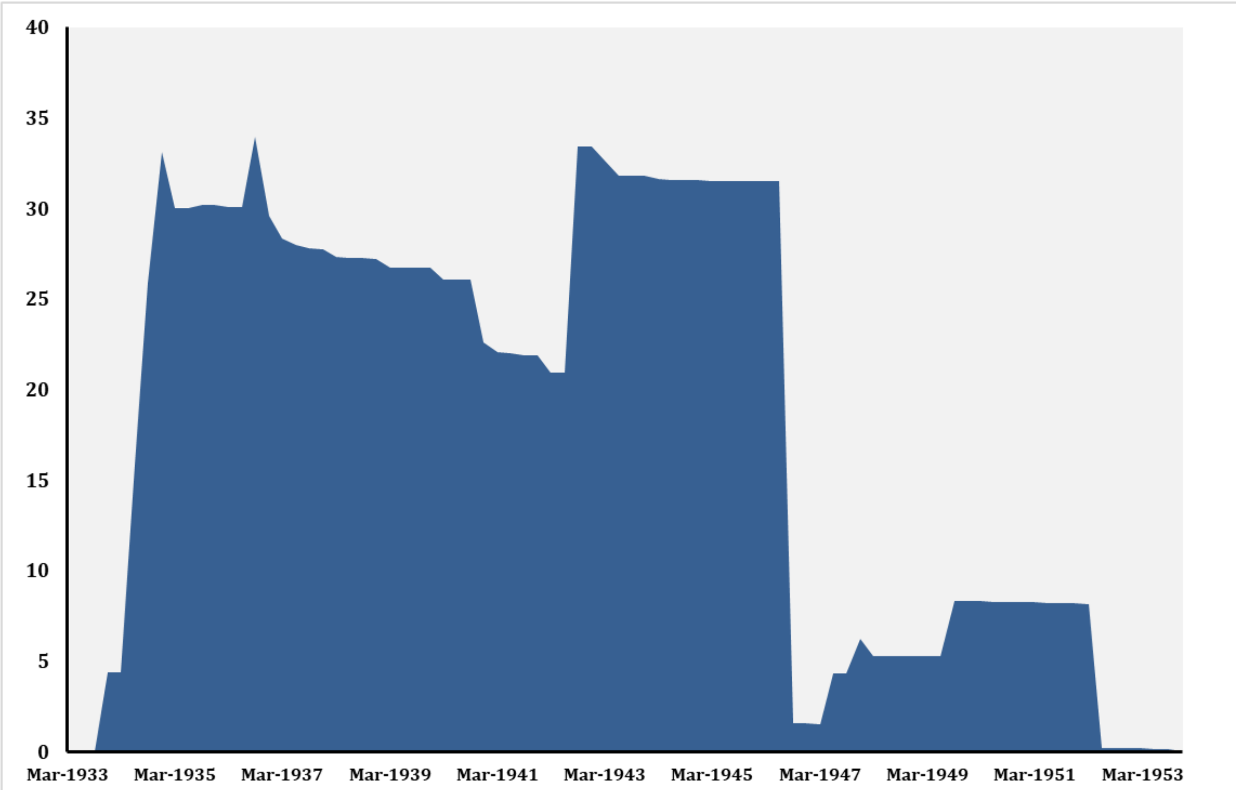
# Appendix C: Relevant charts and tables

**Figure 2: RFC Preferred Stock for Banks and Trust Companies Outstanding ($ millions)**



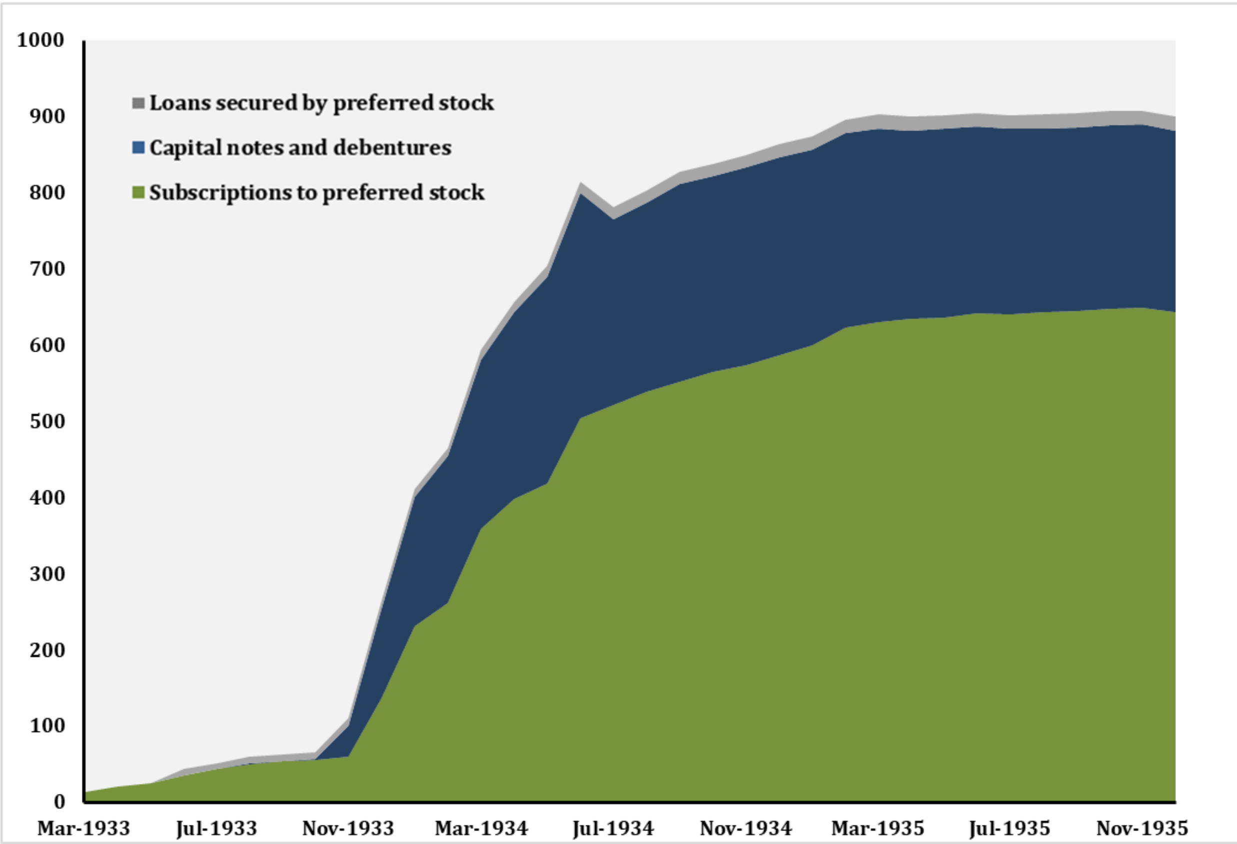

*Source: Final Report of the RFC 1959.*

**Figure 3: RFC Preferred Stock for Insurance Companies Outstanding ($ millions)**




*Source: Final Report of the RFC 1959.*

**Figure 4: RFC Preferred Stock Assistance to Banks and Trust Companies (March 1933 - December 1935, $ millions)**




*Source: Quarterly Report of the RFC, December 1935.*

**Figure 5: 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*

## Figure 6: RFC Preferred Stock Assistance to State Member 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.*

Figure 7: RFC Preferred Stock Assistance to Nonmember 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.*