

SECRET

National Advisory Council

Document No. 668

April 20, 1948

MEMORANDUM TO: National Advisory Council

FROM: ECA Representative on NAC Staff Committee

SUBJECT: Note of Dissent on Proposed Terms of Payment on ECA Loans

I. PROPOSED TERMS OF PAYMENT ON ECA LOANS

1. The ECA member of the National Advisory Council Staff Committee is in agreement with the first part of the recommendation of the other members, namely, "The Council recommends that in principle the terms of payment on ECA loans be in general conformity with the terms of loans by the Export-Import Bank under its 1945 Act, with due regard to the character and purpose of the loans approved by the Economic Cooperation Administration."

2. The ECA member of the National Advisory Council Staff Committee dissents from the second part of the recommendation of the other members for two sets of reasons. The first is the fact that the second part of the recommendation of the other members is in flat contradiction with the first part. The second set of reasons for dissenting is that the latter part of the proposed recommendation makes little or no allowance for the major provisions of the Economic Cooperation Act of 1948, and the principal considerations which will govern the discharge of responsibilities by the ECA under the Act.

II. CONTRADICTIONS IN THE RECOMMENDATION

The second part of the proposed recommendation, especially Sections (b) and (c), are in contradiction with the first part.

1. The terms of loans of the Export-Import Bank under its Act of 1945, which have been established in consultation with the National Advisory Council comprise the following principal types of loans and terms:

- (a) Lend-lease termination credits with interest rate at $2 \frac{3}{8}\%$, final maturity 30 years, and no period of grace;
- (b) Reconstruction loans with interest rate of 3% per annum, final maturity 20 to 30 years, and period of grace about 5 yrs;
- (c) Development loans with interest rate of $3 \frac{1}{2}\%$ per annum, final maturity up to 15 years, with varying periods of grace;
- (d) Specific purpose loans, as in the case of Italy and Austria, with interest rate of $3 \frac{1}{2}\%$, final maturity ranging from 4 to 10 yrs; with periods of grace not exceeding two years.
- (e) Participation loans, such as those extended to Holland, Belgium, and Canada, final maturity ranging from 1 to 5 years, and interest rate ranging from $2 \frac{1}{4}\%$ to $3 \frac{1}{2}\%$, with a period of grace ranging from 6 months to 2 years;

- (f) Commodity credits for cotton and tobacco; interest rate on cotton credits has been $2\frac{1}{2}\%$ and maturity has varied from 15 to 26 months. In the case of tobacco, the interest rate has been $2\frac{1}{2}\%$ and maturity has varied from 15 mos. to $2\frac{1}{2}$ years;
- (g) Aviation credits extended on a participation basis with interest at 3% to $4\frac{1}{2}\%$ and maturities ranging from 2 to 5 years.

2. The second part of the proposed recommendation, especially Section (b) and (c) would confine the operations of the ECA largely, if not exclusively, to only one of the 7 categories of loans and terms of payment of the Export-Import Bank, namely, the reconstruction type of Eximbank loan.

3. The second part of the recommendation proposed by the other members is also far more restricted than Action No. 77 of July 23, 1946 of the Council regarding the terms of the Export-Import Bank on development loans. This Action provides for great flexibility in rates and maturities according to the character of the beneficiary of the loans, the rates prevailing in private capital market, the risk factors involved, and the nature of the commodities financed and of the participants in bank credits.

III. MAJOR CONSIDERATIONS OF ECA

The second part of the proposed recommendation of the other members makes little or no allowance for the principal provisions of the Economic Cooperation Act of 1948 and the major considerations which will govern the Administrator's carrying out of these provisions. The major considerations are as follows:

1. The Economic Cooperation Act of 1948 makes a very clear-cut division between grants and loans. In the category of loans, the Act does not provide for any types of financing that cannot be considered sound loans having a reasonable assurance of repayment. Whenever there is any doubt about the assurance of repayment, the assistance is to be provided entirely in terms of grants. In other words, loans should be loans, and grants should be grants.

2. The terms of the Act require the greatest possible flexibility and variety in the lending operations in order to adapt them to "the character and purpose of the assistance" as well as the capacity to repay of the beneficiary country. It is essential that this flexibility and variety be established at the earliest opportunity so that it is clearly understood, both in the United States and among the participating countries, that such loans as are to be made will be extended on a loan basis with no possibility of misunderstanding regarding the expectation of repayment.

3. The Act provides for the maximum use of private channels of trade and financing. It is necessary to adapt as much as possible the loans approved by ECA so that they conform with the requirements of the Act with respect to the maximum use of private channels.

4. The Act provides for a close scrutiny of the purpose of grants and the use made of grants. A similar opportunity is required by the ECA in order to exercise a continual check on the utilization of funds made available on a loan basis. To achieve this, it may be necessary to adopt certain methods or forms of financing which permit a review, from time to time, of the purposes for which credits are established.

5. The terms of ECA loans should be not out of line with terms applicable in other financial institutions, such as the Export-Import Bank and the International Bank, with respect to loans for a similar purpose. This is necessary not only with a view to avoiding any notion, or act, of competition as between ECA and the other financial institutions, but also to prevent ECA loans from being considered in any way inferior to, or different from, the loans of the other institutions.

6. According to the provisions of the Act, the Export-Import Bank is the lending arm of the ECA. It is natural, therefore, that the operations of the two institutions should, in general, be in conformity for the entire range of future operations.

7. Such periods of grace as are to be provided for in ECA loans should be adapted to the character and purpose of the loan, as well as the capacity of repayment of the beneficiary.

8. The provision of a waiver of interest and/or principal would detract from the principle of a sound loan and should therefore not appear in any loan agreement.

IV. RECOMMENDATION

In order to eliminate the contradictions which are contained in the recommendation as submitted by the other members, and to make adequate allowance for the major considerations of the ECA, it is recommended that sections b and c of the second part of the proposed recommendation of the other members be amended to read as follows:

"(b) That the typical final maturity should be as long as necessary so that the schedule of repayments should not be burdensome, and that principal payments should, in general, not occur during the period of the Economic Cooperation Act of 1948;

"(c) That the rate of interest should normally not exceed $3\frac{1}{2}\%$ per annum."