

## INDUSTRIAL LOANS

Section 5D of the Reconstruction Finance Corporation Act, which authorizes the Corporation to make loans for maintaining and increasing the employment of labor, makes it possible for the Corporation to make loans for fixed capital purposes as well as working capital and commercial purposes. The principal limitation on the Corporation's authority to make loans is that the loan must be so secured as to reasonably assure repayment. This has been interpreted by the Corporation to mean that collateral must be pledged for each loan made in a sufficient amount to insure payment of the loan in case it cannot be paid from earnings. This restriction in the Law makes it impossible for the Corporation to make a loan on an unsecured basis even though in some cases there may be a sound basis for making a loan where the pledging of collateral is impracticable. Furthermore, the Corporation is prohibited by Law from making a loan when in the opinion of the Board of Directors of the Corporation the borrower is not solvent even though there is reasonable assurance that the borrower, with the additional funds, will be able to operate the business profitably, maintain employment and eventually pay off the loan in full. It should also be borne in mind that the Corporation cannot make a loan with maturity beyond January 31, 1945. This means that the period for which the Corporation can now make a loan is less than seven years and that the period is continually growing shorter.

It is the policy of the Reconstruction Finance Corporation not to participate in any refunding issues, unless to do so will result either in the maintenance or the increase of employment. This is necessary under the Law even though the refunding operation appears to be desirable and would be helpful from the standpoint of the industry and the public generally. It should also be pointed out that all applications for loans are passed upon by the Board of Directors of the Corporation here in Washington, which of necessity cannot be as close to or familiar with the applicant's operations as are institutions located in the field and familiar generally with business and financial conditions in their sections of the country.