

STATEMENT OF "T" LOAN POLICY

W. D. Draft
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1. Since the purpose of the "T" guarantee will be to make promptly available to borrowers interim financing of terminated contracts on an over-all basis pending settlement, by freeing funds tied up in war production inventories and receivables and due to their own subcontractors, consideration should be given by the Director of Contract Settlement to the issuance of instructions to the procuring agencies embodying substantially the following points:

- a. No "T" loan should be refused if the borrower is, or has been, engaged in performing an operation connected with or related to war production. The borrower's certification of his investment in termination inventory, receivables and subcontractor's claims should not be questioned unless the financing institution is of the opinion that it is substantially overstated in value.
- b. The procuring agencies should delegate to the Federal Reserve Banks, as Fiscal Agents, authority to approve all applications for guarantees totalling \$500,000 or less to any one borrower, when the percentage of guarantee is not in excess of 90%, provided that the procuring agency's own local representatives, if any, concur.
- c. Conditions other than those contained in the uniform credit agreement and instruction 25 should be prescribed by the Contracting agencies or the Reserve Banks only when clearly necessary to protect the Government's interest. Additional conditions agreed upon by the borrower and the financing institution, if not unreasonable, should not be objected to by the contracting agency or the Reserve Banks.
- d. The percent of guarantee should not ordinarily be questioned by the Reserve Bank or the Guarantor if it does not exceed 90%.
- e. The contracting agencies should not hesitate to authorize a percentage of guarantee in excess of 90% if the circumstances justify the financing institution in requesting it, and other means of interim financing are not promptly available.
- f. In general, the percentages in the loan formula certificate agreed upon by the financing institution and the borrower should not be questioned by the Reserve Bank or the guarantor. After consultation with the Board of Governors, the contracting agencies may specify general criteria or standard maximums which may be employed in typical classes of cases.

2. The termination loan should be confined to the financing of inventories, receivables and amounts payable to subcontractors under terminated contracts only. For combination production and termination financing, the VT loan should be employed except that Sections 5 and 6 of the guarantee agreement should be eliminated and guarantees in excess of 90% may be used where the circumstances justify it. The pure production loan is believed to be no longer necessary.

(direct or indirect)

Since the purpose of the T guarantee will be to make promptly available to borrowers funds as nearly equal as practicable to the amount of their claims against the Government on cancelled war contracts, consideration should be given by the Director of Contract Terminations to issuing instructions embodying the following points:

- (1) No T guarantee should be refused if a claim on a war production contract exists. If the financing institution, after consultation with the borrower, certifies that to the best of its knowledge and belief the claim of the borrower on cancelled war production contracts will not be less than the amount of the loan requested, such certification may be accepted without further investigation unless the Reserve Bank has reason to believe that the borrower has overstated his claim.
- (2) The Services should delegate to the Federal Reserve Banks as fiscal agents authority to approve all applications for guarantees of \$500,000 or less when the percentage of guarantee is not in excess of 90.
- (3) Conditions other than those contained in the uniform credit agreement and instruction 25 should be prescribed by the Services only in the most exceptional cases. Additional conditions agreed upon by the borrower and the financing institution, if not unreasonable, should not be objected to by the Services.
- (4) The per cent of guarantee should not be questioned by the Reserve Bank or the Guarantor if it is 90 per cent or less and the borrower's claim does not appear to be overvalued.
- (5) The Services should not hesitate to authorize a higher percentage of guarantee, even up to 100 per cent, if the financing institution appears justified in asking for it.
- (6) Federal Reserve Banks should be advised of the percentage figures that should be uniformly inserted in the loan formula certificate unless in any particular case special conditions indicate that other percentages should be used.