BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers of
Tuesday, September 12, 1944.

September 11, 1944.

The Board of Governors today announced inauguration of the program of guaranteed loans and commitments authorized under the Contract Settlement Act of 1944. Such termination loans, commonly called T loans, will be made by private financing institutions, chiefly commercial banks, to war production contractors to liquefy or "unfreeze" working capital tied up in terminated contracts pending final settlement of claims arising therefrom. Guarantees will be executed by the Federal Reserve Banks as fiscal agents of the United States acting in behalf of the War Department, the Navy Department, and the United States Maritime Commission. The Reserve Banks are today distributing to all banks in their districts printed forms and detailed information.

The T loan program is a logical extension of the V and VT loan programs under Executive Order 9112, which provide war contractors with financing necessary for production. VT loans, in use since September 1, 1943, provide both production and termination financing, but have not been available after cancellation has taken place. T loans, which are authorized under the Contract Settlement Act, may be guaranteed after the borrower's war production contracts have been terminated. However, commitments for such loans may be guaranteed in advance of cancellation. Thus the program affords war production contractors a means of insurance against the freezing of their working capital which might result from sudden termination of their war contracts.

New schedules of guarantee fees and commitment fees have been prescribed for T loans and will also be made applicable to VT loans when executed on new forms which will be made effective in the near future. The new schedule of guarantee fees follows:

T LOANS

Per cent of loan guaranteed	Guarantee Fee (Per cent of interest payable by borrower on guaranteed portion of loan)
80 or less	10
85	15
90	20
95	30
Over 95	50

The maximum commitment fee that may be charged the borrower by a financing institution will be 1/4 of 1 per cent per annum, or in the alternative a flat fee of not to exceed $50.00. Under the new schedule, the fee is not shared by the guarantor.

The maximum rate of interest on any T loan will be 4-1/2 per cent per annum, as compared with 5 per cent heretofore. This maximum will likewise be made applicable to VT loans on the new forms.

While the prospective need of war production contractors for T loans cannot be accurately estimated, the commercial banks should be prepared to make a large number of such loans within the first few weeks after the end of the European phase of the war. If applications for such loans were not filed until after cancellations occur in large volume, it might be physically impossible to process them promptly. Therefore, the program will emphasize the desirability of contractors and their banks, in advance of cancellation, negotiating commitments to make such loans. These commitments will be guaranteed by the Federal Reserve Bank, acting as fiscal agent of the United States, so that upon termination, borrowers can promptly obtain such loans and the banks will already have the protection of the guarantee.

In comparison with the V and VT loan programs, the T loan program is simplified and liberalized in recognition of the obligation of the Government, as expressed in the Contract Settlement Act, to provide prompt and adequate interim financing to contractors pending final settlement of their claims.