

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 19, 1951.

To Governor Eccles

Subject: Extent to which V-loan program
does not meet financing needs
of defense contractors.

From Mr. Hackley

In connection with the argument that the guaranteeing functions of RFC are now unnecessary in the light of the present V-loan program, I think it should be borne in mind that in one respect at least the V-loan program clearly is not meeting the credit requirements of defense contractors.

The guaranteeing agencies, with the exception of General Services Administration, take the position that they will not guarantee loans unless the proceeds are to be used primarily for working capital purposes. In other words, they will not consider applications for guarantees of long-term loans to finance plant construction or facilities.

It was apparently contemplated that financing for plant construction would be provided by the RFC on certification of certain "delegate agencies" under the provisions of section 302 of the Defense Production Act. That program, however, has not succeeded. We are constantly receiving complaints and inquiries regarding the inability of defense contractors to obtain long-term capital funds for the purpose of building plants and providing additional facilities which they require in order to carry out their defense contracts.

Legally, we believe that guarantees of facilities loans might be made by the guaranteeing agencies under the present law. However, there are many policy considerations involved, one of which is the feeling that the V-loan program of World War II worked so very successfully because it was limited to working capital loans, and that the injection of long-term facilities loans into the present program might so complicate the program as to impair its usefulness. In addition, guarantees of facilities loans would (and have) raised questions regarding modification of the schedule of guarantee fees, changes in forms and procedures, and availability of funds on the part of the guaranteeing agencies.

Howard H. Hackley