

C O P Y

RECONSTRUCTION FINANCE CORPORATION

Washington

October 24, 1949

Harley Hise, Chairman, Reconstruction Finance Corporation today announced that the Directors had approved a loan of \$10,000,000 to Kaiser-Frazer Sales Corporation, a subsidiary of Kaiser-Frazer Corporation, Willow Run, Michigan.

The loan will be used as a revolving credit to assist in financing at wholesale level the distribution of automobiles manufactured by Kaiser-Frazer Corporation to dealers and distributors to the extent that credit for such purposes is not available through normal channels. No part of the proceeds of the loan may be used in connection with the financing of retail sales. Repayment of funds disbursed under the authorization is required in eighteen months and the loan is to be secured by new Kaiser-Frazer automobiles; endorsement of the dealers; and, the guaranty of Kaiser-Frazer Corporation.

In commenting on the \$34,400,000 loan recently authorized to Kaiser-Frazer Corporation, which will mature in ten years, Mr. Hise said that the collateral to that loan will consist of a first lien on all of the physical assets of Kaiser-Frazer Corporation and its subsidiaries, including the land, buildings, machinery and equipment known as the Willow Run plant. These properties were recently appraised by Coverdale & Colpitts, Consulting Engineers, 120 Wall Street, New York City, at a recovery value as a going concern of more than \$58,000,000. The loan will be further secured by a pledge of all of the capital stock of Kaiser-Frazer Parts Corporation; Kaiser-Frazer Sales Corporation; Kaiser-Frazer Export Corporation; Kaiser-Frazer Canada, Limited, all wholly owned subsidiaries of Kaiser-Frazer Corporation. Of the loan proceeds \$22,400,000 will be used for engineering, designing and retooling in connection with the production of new car models and the balance of approximately \$12,000,000 is for working capital.

The \$34,400,000 loan is to be additionally secured by a \$15,000,000 guaranty of Henry J. Kaiser Company and Kaiser Engineers, Inc., and such guaranty will be secured by collateral acceptable to RFC with a market value of not less than \$10,000,000. This guaranty is to be applicable also to the \$10,000,000 loan authorized to Kaiser-Frazer Sales Corporation. Both of the loans bear interest at the rate of four per cent per annum.

Henry Kaiser, the members of his family and companies in which they are interested own less than ten per cent of the stock of Kaiser-Frazer Corporation which is broadly distributed, being held by approximately 40,000 stockholders. The widespread public interest in the operations of this business is evidenced by the fact that Kaiser-Frazer Corporation directly employs approximately 10,000 persons and it is estimated that an additional 47,000 persons are employed by more than 1,000 small manufacturers which supply parts and materials and by dealers and distributors of Kaiser-Frazer automobiles and automobile accessories.

C O P Y

October 25, 1949

Honorable J.W. Fulbright
Chairman, RFC Subcommittee of the
Banking and Currency Committee
United States Senate
Washington, D.C.

Dear Senator Fulbright:

This letter replies to your inquiry of October 11 regarding the approval by Reconstruction Finance Corporation on October 6, 1949, of a loan to Kaiser-Frazer Corporation of Willow Run, Michigan.

The amount of the loan is \$34,400,000 and the proceeds will be used as follows:

- 1 - Engineering and designing of new models and retooling
for production thereof.....\$18,000,000
- 2 - Engineering and designing of a new model light-weight
automobile, and tooling for production thereof..... 4,400,000
- 3 - Working capital..... 12,000,000

Kaiser-Frazer has been unsuccessful in its attempts to obtain, through normal banking channels or other private sources, the financing needed for the production of new competitive models - hence, its application to this Corporation for financial assistance. The Company, which heretofore has made and marketed only one basic car, namely, a 4-door sedan, has determined that to compete in the automobile market Kaiser-Frazer must manufacture a complete line of cars.

Presently, Kaiser-Frazer has approximately \$35,000,000 working capital, of which approximately \$12,000,000 is in cash. It owes the banks \$16,000,000. In the course of normal operations during the next few months, it should realize sufficient additional cash from conversion of raw materials and sale of finished products to enable it to repay its bank loans without using any part of the proceeds of the RFC loan. However, Kaiser-Frazer cannot, as a practical matter, wait for four or five months until the bank loans are thus liquidated to place orders for the tools, dies, jigs, and fixtures with which to retool its plant. In the circumstances, it may be necessary for Kaiser-Frazer to use a portion of the RFC loan, together with its cash on hand, to pay the banks.

The RFC will receive as security not only the collateral, consisting of machinery and equipment upon which the banks presently have a chattel mortgage, but also a first mortgage on real estate, buildings, and appurtenances comprising of the Willow Run plant. In addition, RFC has required a \$15,000,000 guaranty, executed by Kaiser Engineers, Inc. and Henry J. Kaiser Company. This guaranty will be secured by collateral satisfactory to RFC having a market value of \$10,000,000. Coverdale and Colpitts, a nationally-known firm of consulting engineers, has made an inspection and appraisal of the land, fixtures, machinery and equipment and placed upon them a recoverable value on a "going concern basis" of \$58,000,000 and on a "piece by piece basis" of \$35,500,000. These valuations do not include

the estimated forced liquidation value of \$2,083,000 for tools, dies, jigs and fixtures, costing approximately \$16,000,000, which will be purchased with a part of the proceeds of the RFC loan and on which RFC will have a first lien.

The Board of Directors of Reconstruction Finance Corporation believes, therefore, that the loan is well secured and will be repaid.

Kaiser-Frazer employs directly approximately 10,000 persons and reasonably estimates that an additional 44,000 are employed by more than 1000 small manufacturers which supply parts and materials and by dealers and distributors of Kaiser-Frazer automobiles and automobile accessories throughout the nation. The widespread public interest in the success of Kaiser-Frazer springs not only from the number of employees and the number of small businesses which are, to a large extent, dependent upon it, but also by reason of the broad distribution of its stock which is held by approximately 40,000 stockholders. Mr. Henry Kaiser, the members of his family and the various companies in which they are interested own less than 10% of the stock of Kaiser-Frazer Corporation.

Since receiving your letter of October 11, the Directors have approved a short-term loan of \$10,000,000, maturing in eighteen months, to Kaiser-Frazer Sales Corporation, a subsidiary, to enable it to finance at wholesale level the marketing and distribution of Kaiser-Frazer cars. This loan, or so much of it as may be disbursed, will be secured by new automobiles, by the guaranty of Kaiser-Frazer Corporation and also by the \$15,000,000 guaranty executed by Kaiser Engineers, Inc. and Henry J. Kaiser Company, to which reference is made in a preceding paragraph.

The RFC Board of Directors believes that this loan also is well secured and will be repaid.

The Directors of RFC are convinced that these loans will enable Kaiser-Frazer Corporation to maintain a production level that will insure profitable operation, will provide employment for thousands of workers, will assist and encourage many small businesses, will increase production in a number of manufacturing fields and generally promote the economic stability of the country. //

Sincerely yours,

/s/ Harley Hise
Chairman

Enclosed is copy of a Press Release issued yesterday