

# FEDERAL RESERVE BANK OF DALLAS

FISCAL AGENT OF THE UNITED STATES

Dallas, Texas, September 15, 1943

To all Banking Institutions, and Others Concerned,  
in the Eleventh Federal Reserve District:

There is quoted below the text of a press statement issued by the Board of Governors of the Federal Reserve System, on September 1, 1943, relating to Regulation V loans:

"Government guaranteed V loans will be made available to war contractors and sub-contractors on a much broader basis than heretofore, effective immediately, under a plan jointly announced today by the War and Navy Departments, the U. S. Maritime Commission and the Federal Reserve Board.

"The plan is designed to assure contractors that their working capital invested in war production will not be frozen in the event of contract terminations. Interest on loans guaranteed under the new program will be assumed by the Government upon termination of contracts as under present Regulation V guarantees.

"This decision to broaden industrial credit facilities was reached with a view to preventing any lag in war production, which might be caused by fear on the part of contractors that their capital would be tied up as contracts are cancelled in response to swiftly changing war requirements. This broadened V loan will go far toward allaying such fears.

"In the past, advances under V loans have been restricted, in general, to working capital needs for war production. The broadening of the plan will enable contractors to obtain the use of most of their own working capital immediately upon termination of their contracts. Banks will be enabled to make such advances at once, and with a minimum of complications. The establishment of such credit arrangements will greatly minimize the problem of termination of war contracts.

"The Services stress the fact that cancellation of contracts must not be construed as marking the beginning of a general curtailment of war production. On the contrary, with the war rapidly becoming one of movement, with great allied offensives in progress and in prospect, materiel requirements are subject to sudden and unavoidable changes, and it is essential to remove all possible causes of delays in war production.

"Details of the procedure for obtaining the liberalized V loans have gone forward to all Federal Reserve Banks from Washington."

The following additional information is furnished regarding the broadened program:

Guarantees under Regulation V will be made available for financing war production contractors, for the purpose of providing both for the needs of any such contractor for borrowed working capital and for freeing his own working capital upon cancellation of his war production contracts which may occur after the execution of the guarantee.

The contractor or subcontractor will obtain a V loan exactly as at present except that, if a substantial portion of the loan is intended to free his own working capital upon termination of contracts, then there are to be two changes in the present guarantee agreement, viz.:

(1) The bank will be required at all times to have a participation in the loan and, accordingly, the original percentage of guarantee specified in the guarantee agreement will not be increased by reason of contract cancellations, and

(2) If the financing institution charges the borrower a fee in connection with a commitment to make a guaranteed loan, the bank must share with the Government such commitment fee, which may not exceed  $\frac{1}{2}$  of 1 per cent per annum on the undisbursed portion of the credit, in the same proportion that the guarantee fee now bears to the interest payable on V loans, viz.: If the percentage of guarantee is

60%	the Government's share is 10% of the commitment fee
65%	12 $\frac{1}{2}$ %
70%	15%
75%	17 $\frac{1}{2}$ %
80%	20%
85%	22 $\frac{1}{2}$ %
90%	25%

The amount of loans which a contractor will be entitled to obtain in the event of cancellation of his contracts will be stated in the loan agreement as a percentage of inventories, work in process, accounts receivable, and (without duplication) amounts paid or concurrently to be paid by him to subcontractors or suppliers by reason of contract cancellations. Subcontractors and suppliers will receive protection under this program, because a borrower will be required to pay them whatever he owes them in connection with the items used as a basis for the borrowing.

Loan agreements under the new program will include provision for such amounts of working capital to carry out war production contracts, as may be needed by the contractor in the particular case. In general, where the amount of credit needed to carry out the war production contracts is small in proportion to the amounts needed to free his own working capital upon contract terminations, the maturity of the credits under the new program may be longer and a minimum of restrictions will be placed upon the borrower by the guaranteeing agencies.

When cancellations of the borrower's contracts occur, the maturity of that part of the loan proportionate to the amount of the contracts cancelled will be suspended and interest waived thereon, as is now provided under V guarantees. This suspension of maturity and waiver of interest will apply whether the funds have been advanced to the borrower before or after the cancellations have occurred. In other words, where a bank makes a loan after cancellation, under a commitment theretofore given, interest is waived, and the guarantor pays interest on a portion of the loan proportionate to the amount of cancellations.

Where a borrower is presently being financed by a Regulation V loan and if a termination loan appears desirable, the existing loan may be converted into a larger loan.

Credit available on cancellation of war production contracts is to be made available to subcontractors as well as prime contractors.

The loan agreements for the new type loan, or for a combination of the old type and the new type, should provide for a maximum over-all dollar credit under which advances would be made on a basis of a percentage of inventory, work in process and receivables, as well as upon the amount of outstanding war contracts. We shall be glad to furnish samples of the so-called "formula" type loan agreements which have been used and are being used, and we shall also be glad to discuss this phase with persons interested.

We feel that until the plan has been more fully developed, it is advisable, in each instance where a new type loan is desired, to take the matter up with us, either by letter or in person, so that we may assist in setting up the loan in a manner which is in conformity with the policy of the Service involved.

Yours very truly,

R. R. GILBERT

President