

# FEDERAL RESERVE BANK OF DALLAS

FISCAL AGENT OF THE UNITED STATES

Dallas, Texas, September 12, 1944

## TERMINATION LOANS

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

There is enclosed a copy of a press statement issued by the Board of Governors of the Federal Reserve System, announcing the inauguration of the program of guaranteed loans and commitments authorized under the Contract Settlement Act of 1944. Under this program, 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 covering designated percentages of loans made by financing institutions, chiefly commercial banks, to war production contractors to "unfreeze" working capital tied up in terminated contracts pending final settlement of claims arising therefrom.

The new program relating to termination loans, commonly called T loans, is an extension of the V and VT loan programs under Executive Order No. 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 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. It is highly desirable, therefore, for contractors and their banks, in advance of cancellation, to negotiate commitments to make termination loans, which in turn may be guaranteed.

The following schedule of guarantee fees is applicable to termination guarantees:

Per cent of Loan Guaranteed	Guarantee Fee (per cent of loan rate)
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  $\frac{1}{4}$  of 1 per cent per annum, to be based on the average daily unused balance of the maximum principal amount of the loan, or in the alternative a flat fee not to exceed \$50 without regard to the amount or maturity of the commitment. The commitment fee will be retained in its entirety by the financing institution and will not be shared with the Guarantor.

These schedules will also apply to guarantees of V and VT loans when executed on the revised form of 1944 V-Loan Guarantee Agreement which will be prescribed in the near future.

The maximum rate of interest on any T loan will be  $4\frac{1}{2}$  per cent per annum. This maximum interest rate will likewise be made applicable to new V and VT loans.

There is enclosed a copy of General Regulation No. 1, dated August 18, 1944, issued by Robert H. Hinckley, Director of Contract Settlement, Washington, D. C. This regulation prescribes the policies to be observed in the guaranteeing of termination loans. In substance, these policies call for expeditious handling of applications for and execution of guarantees. Also, there is enclosed a copy of the T Loan Guarantee Agreement, together with a copy of the Termination Loan Agreement (with exhibits), Explanatory Notes, and application form. Supplies of these forms will be furnished upon request.

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.

Financing institutions which are located in branch territories should refer their inquiries regarding the T loan program to the respective branches.

Yours very truly,

R. R. GILBERT

President

**BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**

**STATEMENT FOR THE PRESS**

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For Release in Morning Newspapers of  
Tuesday, September 12, 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:

<b>T LOANS</b>	
Per cent of Loan Guaranteed	Guarantee Fee (Per cent of interest payable by borrower on guaranteed portion of loan)
80 or less	<b>10</b>
85	<b>15</b>
90	<b>20</b>
95	<b>30</b>
Over 95	<b>50</b>

The maximum commitment fee that may be charged the borrower by a financing institution will be  $\frac{1}{4}$  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  $4\frac{1}{2}$  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.

OFFICE OF CONTRACT SETTLEMENT  
WASHINGTON, D. C.

August 18, 1944

**GENERAL REGULATION NO. 1**

Pursuant to the authority conferred upon me by Sections 4(b) and 8(c) of the Contract Settlement Act of 1944, I hereby prescribe the procedure for the guaranteeing of termination loans by the War Department, the Navy Department and the Maritime Commission through the Federal Reserve Banks, outlined in the Guarantee Agreement, the Loan Agreement, and Explanatory Notes attached hereto as exhibits A, B, and C, respectively.

Technical amendments not affecting policy may be made in exhibits B and C by agreement among the War and Navy Departments, the Maritime Commission and the Federal Reserve Board.

In the execution of this procedure the following policies will be observed:

1. Termination loan (hereinafter called T-Loan) guarantees should not be refused by the contracting agency having the preponderant interest in the borrower's war contracts if the borrower is or has been engaged in performing an operation connected with or related to war production, except in such classes of cases as may be prescribed by the Director. The borrower's certification of his investment in termination inventories and receivables and of the amounts payable to subcontractors should not be questioned by the Federal Reserve Bank or the contracting agency unless there is reason to believe that it is substantially overstated in value. Financing institutions should be encouraged to make unguaranteed production and termination loans, and the fact that a financing institution has made such an unguaranteed loan shall not affect its right subsequently to apply for a T-Loan guarantee, even if the proceeds of the T-Loan are used to retire the existing loan.
2. If a contracting agency which utilizes the Federal Reserve Banks as fiscal agents for T-Loan guarantees has local representatives in connection therewith, it should delegate to such banks authority to approve, after consultation with and in the absence of objection by such representatives, all applications for guarantees of loans totaling (a) \$500,000 or less to any one borrower when the requested percentage of guarantee is not in excess of 90 per cent, and (b) \$100,000 or less to any one borrower when the requested percentage of guarantee is not in excess of 95 per cent. Any such contracting agency which does not have such local representatives will provide them in the localities where, and at the times when, it is determined that they are required, in the light of its prospective volume of contract terminations and after consultation with the Director, and in the absence of such representatives should delegate such authority to the Reserve Banks as is necessary to insure prompt processing of applications for and execution of such guarantees.
3. Conditions other than those required under the standard loan agreement should be prescribed by the contracting agencies or the Federal Reserve Banks only in exceptional circumstances and when they are clearly necessary to protect the Government's interest. Additional conditions agreed upon by the borrower and the financing institution, if not unreasonable and not inconsistent with the standard loan agreement, should not be objected to by the contracting agency or the Reserve Banks.
4. The requested percentage of guarantee should not ordinarily be questioned by the Federal Reserve Bank or the contracting agency if it does not exceed 90 per cent; and a contracting agency should not authorize a percentage of guarantee in excess of 90 per cent, or 95 per cent in the case of small loans, unless the circumstances clearly justify the financing institution in requesting it and other means of interim financing are not promptly available.
5. In general, the percentages in the loan formula certificate agreed upon by the financing institution and the borrower should not be questioned by the Federal Reserve Bank or the contracting agency. After consultation with the Board of Governors of the Federal Reserve System, the contracting agencies will, to the extent practicable, specify general criteria or standard maximums which may be employed in typical classes of cases.

(Signed) ROBERT H. HINCKLEY

Robert H. Hinckley  
Director

T-LOAN GUARANTEE AGREEMENT

No. \_\_\_\_\_

The \_\_\_\_\_ (herein called "Guarantor"), acting through the Federal Reserve Bank of \_\_\_\_\_ as fiscal agent of the United States (herein called "Reserve Bank"), and the Financing Institution hereby agree as follows:

Section 1. Definitions.

(A) "Financing Institution" shall mean

(B) "Borrower" shall mean \_\_\_\_\_

(Name)

of \_\_\_\_\_

(Address)

(C) "The loan" shall mean the financing arrangement between the Financing Institution and the Borrower which is described in Appendix I annexed hereto. In case of any conflict or inconsistency between the provisions of this agreement and the provisions of Appendix I or any other similar instrument, the provisions of this agreement shall control.

(D) "Obligation" shall mean the instrument or instruments evidencing the Borrower's indebtedness under the loan.

(E) "Guaranteed percentage" shall mean \_\_\_\_\_%.

Section 2. Guarantee as to Sharing of Losses and Expenses.

(A) All losses on the loan (i.e., all amounts of principal and interest which are due and unpaid), and all unreimbursed expenses as defined in Paragraph (B) of this section, shall be shared ratably, on the date of settlement, by the Guarantor and the Financing Institution in accordance with the guaranteed and unguaranteed percentages, respectively. All net recoveries after the date of settlement shall be shared on the same basis. The date of settlement shall be the thirtieth (30th) day after the date on which either party, after maturity of the loan, receives from the other party a written request for such settlement, or any other date agreed on by the parties.

(B) Expenses shall mean all reasonable out-of-pocket expenses (including reasonable counsel fees incurred by the Financing Institution or the Reserve Bank prior to but not after any purchase under this agreement) which relate to the enforcement of the loan or the preservation of the collateral and which are incurred during the period of any default in the payment of principal or interest.

Section 3. Agreement to Purchase.

The Guarantor will at any time and from time to time prior to the date of settlement purchase such portion of the obligation as may be demanded in writing by the Financing Institution, by paying to the Financing Institution, on the tenth (10th) day after the receipt by the Reserve Bank of such a demand, the unpaid principal amount of the portion of the obligation to be purchased, as of the date of the demand, plus all unpaid accrued interest on such amount, with appropriate adjustment for guarantee fees, computed as of the date of purchase; provided that in no event shall the total amount of the portion of the obligation owned by the Guarantor exceed the guaranteed percentage.

Section 4. Voluntary Purchase by Guarantor.

The Guarantor may, at any time upon its demand, purchase the guaranteed percentage of the obligation, less any amounts previously purchased under this agreement and not repaid, and shall pay therefor on the basis stated in section 3. In such event, at the option of the Financing Institution or the Guarantor, the Financing Institution shall forthwith transfer possession of the obligation and collateral in the manner provided in section 5.

Section 5. Administration of Loan and Possession of Obligation and Collateral.

(A) The Financing Institution shall administer the loan until it transfers possession of the obligation and collateral to the Reserve Bank as provided below, and thereafter the Guarantor shall administer the loan. Whenever the Guarantor purchases any part of the obligation, the Financing Institution shall forthwith deliver to the Reserve Bank a certificate evidencing the Guarantor's ownership interest in the obligation and collateral. In any such case, however, upon written demand by the Reserve Bank, the Financing Institution shall forthwith transfer to the Reserve Bank, without recourse or warranty except as to the genuineness of the Borrower's signature to any instrument, such possession of, title to, and rights to enforce the obligation and all collateral therefor as it may have. Thereupon the Reserve Bank shall issue to the Financing Institution a certificate evidencing the Financing Institution's ownership interest in the obligation and collateral. Either party administering the loan may (1) release and dispose of collateral and proceeds thereof, and permit substitution therefor, all in accordance with the terms of the loan, and (2) after five days' written notice to the other party, bring any action to enforce the loan.

(B) Nothing in this agreement shall prevent the Financing Institution from transferring the obligation as collateral for advances by a Federal Reserve Bank.

**Section 6. Ratable Application of Collections.**

All amounts at any time paid or credited on the obligation, from whatever sources realized, shall be applied ratably for the benefit of the Financing Institution and the Guarantor according to their respective ownership interests in the obligation. Except as may be provided in the loan, the Financing Institution shall not be required to credit on the obligation the proceeds of any banker's lien or right of set-off with respect to funds of the Borrower (exclusive of proceeds of contracts on Exhibit C to Appendix I) or of other assets, to the extent that the Financing Institution has provided that such lien, right of set-off or other assets shall be security for other indebtedness of the Borrower to it.

**Section 7. Fees Payable to Guarantor.**

The Financing Institution shall pay to the Reserve Bank at the end of each monthly or quarterly period, as fixed by the Reserve Bank, an amount equal to \_\_\_\_\_ per cent of any interest payable by the Borrower on the average daily amounts of that part of the unpaid principal of the obligation which the Guarantor was obligated during such period to purchase upon demand of the Financing Institution.

**Section 8. Effect of Violation of Agreement.**

(A) If the Financing Institution shall violate, or fail to comply with, any of the terms of this agreement or any of the terms or conditions of the loan or shall through gross negligence make a material misrepresentation of fact in the application therefor, or in anything constituting a part of the application, it shall become liable to the Guarantor in an amount equal to the damages sustained by the latter by virtue of such violation, failure to comply, or misrepresentation; but the Guarantor shall not be relieved by such violation, failure to comply, or misrepresentation from any of its obligations to the Financing Institution under this agreement.

(B) In the absence of gross negligence on the part of the Financing Institution, (1) no invalidity or ineffectiveness of any collateral or of any assignment thereof accepted by the Financing Institution, and (2) no action or omission to act on the part of the Financing Institution in reliance on a statement or certificate signed by an appropriate officer or member of the Borrower with respect to the financial condition, business or operations of the Borrower, shall constitute a violation of, or failure to comply with, any of the terms of this agreement or any of the terms or conditions of the loan on the part of the Financing Institution. No invalidity of any provision of the loan arising from statute or decision of any court shall in any way relieve the Guarantor hereunder.

**Section 9. Officials Not to Benefit.**

No member of or delegate to Congress or resident commissioner shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

IN WITNESS WHEREOF, the parties have caused this agreement to be executed on their behalf by their duly authorized agents this \_\_\_\_\_ day of \_\_\_\_\_, 194\_\_\_\_\_.

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(Guarantor)

By Federal Reserve Bank of \_\_\_\_\_  
as Fiscal Agent of the United States.

(SEAL)

By \_\_\_\_\_  
(Name) (Title)

ATTEST:

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(Financing Institution)

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(Name)

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(Title)

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(Name)

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(Title)

APPENDIX I

TERMINATION LOAN AGREEMENT

Under Guarantee Agreement No. \_\_\_\_\_

(herein called "Financing Institution") will grant credit to \_\_\_\_\_

of \_\_\_\_\_ (herein called "Borrower"), up to a maximum principal amount of \$\_\_\_\_\_ at any one time outstanding, by lending to the Borrower at any time and from time to time on promissory notes in the form annexed hereto as Exhibit A and in accordance with the terms and conditions of this agreement.

1. Definitions.—All terms defined in the Contract Settlement Act of 1944 and in the Guarantee Agreement shall have the same meaning when used in this agreement. "Terminated war contract" shall mean a war contract, in its entirety, which has been terminated in whole or in part. "The Contracts" shall mean such terminated war contracts, if any, as may now be listed on Exhibit C annexed, and as the Borrower may from time to time add thereto by supplement approved by the Financing Institution.

2. Maturity.—The loan shall mature thirty (30) days after final payment of the amounts due, upon final and conclusive settlement, on the war contracts of the Borrower or upon \_\_\_\_\_, 194\_\_\_\_, whichever is earlier, and all notes issued hereunder shall thereupon become due and payable. If any note of shorter maturity is issued, the Borrower may from time to time until the maturity of the loan again borrow hereunder the unpaid amount of such note, subject to the provisions of Paragraph 6 hereof. The Borrower may at any time by written notice reduce the maximum principal amount of the loan in multiples of \$\_\_\_\_\_.

3. Interest.—The Borrower shall pay interest as prescribed in Exhibit A.

4. Commitment Fee and Expenses.—The Borrower shall pay quarterly a commitment fee at the rate of \_\_\_\_\_% per annum on the average daily unused balance of the maximum principal amount of the loan. The Borrower shall reimburse the Financing Institution for reasonable out-of-pocket expenses incurred in connection with the loan and the application therefor.

5. Collateral.—Prior to or contemporaneously with any borrowing hereunder, the Borrower, except and to the extent that the Financing Institution otherwise agrees in writing, will assign to the Financing Institution as security for the loan all moneys due and to become due on the Contracts. At any time upon request of the Financing Institution or the Guarantor, the Borrower will furnish additional security by assigning to the Financing Institution the moneys due and to become due on any or all of its terminated war contracts which by using its best efforts the Borrower can assign and which have not been previously assigned hereunder. All proceeds of assignments made hereunder and of any other collateral taken by the Financing Institution for the loan shall be applied to the indebtedness under the loan. Except to secure borrowings hereunder, except as provided in Exhibit D, and except to secure partial payments made to the Borrower by any contracting agency, the Borrower will not (a) assign, or suffer to remain assigned, moneys due or to become due on any of the Contracts, or (b) mortgage, pledge, or otherwise encumber, or suffer to remain encumbered for more than \_\_\_\_\_ days, any inventory allocable to the Contracts.

6. Conditions of Borrowing.—The Financing Institution shall not be required to make any advance hereunder (a) unless the Borrower furnishes to the Financing Institution a loan formula certificate in the form annexed hereto as Exhibit B, dated not more than \_\_\_\_\_ days before the date of the proposed borrowing, which shows a borrowing base, calculated in accordance with the percentages therein specified, of not less than the amount that will be outstanding after the proposed borrowing, or (b) if any event exists which constitutes or which, except for notice or lapse of time or both, would constitute a default specified in this agreement, or (c) to the extent that the Financing Institution has reason to believe that the borrowing base stated in the loan formula certificate is substantially overstated in value and has so notified the Borrower in writing, provided that the Financing Institution may rely upon the borrowing base shown in the loan formula certificate.

7. Reports.—The Borrower shall maintain proper records and accounts, permit such inspection thereof, and furnish such statements and reports, including audit reports, as the Financing Institution or the Guarantor may from time to time reasonably request. In any event, within three (3) months after the initial borrowing and not less than quarterly thereafter the Borrower shall furnish to the Financing Institution periodic reports in triplicate made up as follows:

(a) A balance sheet, certified by an appropriate officer or member of the Borrower, as of a date not more than \_\_\_\_\_ days prior to the date of furnishing the report.

(b) A loan formula certificate in the form of Exhibit B, dated not more than \_\_\_\_\_ days before the date of furnishing the report, unless such a certificate has been furnished within thirty (30) days before such date.

(c) A statement of the nature, amounts, and dates of all payments on any assigned terminated war contracts and on the Contracts, whether or not assigned, in cash or by offset or otherwise (except any offset theretofore deducted in any loan formula certificate) between the date of the initial borrowing or the last date covered by the last report, whichever is later, and a date not more than fifteen (15) days prior to the date of such a statement. Payments shall be deemed to include the proceeds of collateral taken for the loan, or proceeds of, or specific credit with respect to, any sale, retention or other disposition of inventory allocable to such contracts, approved or authorized by the proper authority, and the cost or proceeds, whichever is greater, of any such inventory which the Borrower has definitively elected to retain without specific credit therefor.

8. Reduction of Notes.—The Borrower shall pay down the unpaid principal amount of the notes by an amount equal to: (a) All payments, as described in Paragraph 7(c), within three (3) days from the date of any such payment or within such further time as the Financing Institution may prescribe; and (b) any excess of outstanding borrowings over the borrowing base shown in the most recent loan formula certificate, upon the date of furnishing such certificate, provided that, while the Financing Institution may rely upon the borrowing base shown in such certificate, such borrowing base shall be decreased to the extent that the Financing Institution or the Guarantor has reason to believe that it is substantially overstated in value and has so notified the Borrower in writing, in

which event the Borrower shall pay, in addition, an amount equal to any excess resulting from such decrease, within ten (10) days after the mailing of such notice.

9. **Maintenance of Working Capital.**—The Borrower shall maintain net current assets, as determined in accordance with generally accepted principles of accounting and including in current liabilities all borrowings outstanding hereunder, of not less than \$\_\_\_\_\_.

10. **Insurance.**—The Borrower shall maintain insurance on its property in such amounts and against such risks as is customarily maintained by similar businesses operating in the same vicinity.

11. **Other Provisions.**—The parties hereto agree to any additional provisions appearing in Exhibit D annexed.

12. **Events of Default.**—The occurrence of any one of the following events shall constitute a default hereunder:

(a) Any statement, representation, warranty, certificate, schedule or report furnished by the Borrower in connection with the loan shall prove to have been materially false at the date thereof.

(b) Nonpayment of the principal of any of the notes outstanding hereunder when due; or nonpayment of interest or any commitment fee within ten (10) days after the due date thereof.

(c) Breach by the Borrower of any other provision of this agreement.

(d) The Borrower shall be adjudicated a bankrupt or a trustee or a receiver shall be appointed for the Borrower or of a substantial part of its property in any involuntary proceeding, or any court shall have taken jurisdiction of the property of the Borrower or of a substantial part thereof in any involuntary proceeding for the reorganization, dissolution, liquidation or winding up of the Borrower, and such trustee or receiver shall not be discharged or such jurisdiction relinquished or vacated or stayed on appeal or otherwise stayed within thirty (30) days, or the Borrower shall file a petition or answer, not denying jurisdiction, in voluntary bankruptcy or under Chapter X or Chapter XI of the Federal Bankruptcy Act or any similar law, State or Federal, whether now or hereafter existing, or such a petition filed against the Borrower shall be approved and not vacated or stayed within thirty (30) days, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall consent to the appointment of a receiver or trustee or liquidator of all of its property or a substantial part thereof, or shall have failed within thirty (30) days to bond or otherwise discharge any attachment or to pay any judgment which is unstayed on appeal.

If there shall occur any default as defined in item (a) above or if there shall occur and be continuing any default as defined in items (b) or (c) above, then upon the election of the Financing Institution or the Guarantor, evidenced by written notice to the Borrower, or if there shall occur any default as defined in item (d) above, then forthwith and without any election, the obligation, if any, of the Financing Institution to extend further credit shall terminate and all notes outstanding hereunder shall become due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived.

IN WITNESS WHEREOF, the parties have caused this agreement to be executed on their behalf by their duly authorized agents, this \_\_\_\_\_ day of \_\_\_\_\_, 194\_\_\_\_\_.

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(Borrower) (Financing Institution)  
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By ----- By -----  
(Name) (Title) (Name) (Title)



EXHIBITS TO TERMINATION LOAN AGREEMENT DATED \_\_\_\_\_, 194\_\_\_\_\_

(If additional provisions are to be included in the Loan Agreement in accordance with Paragraph 11 thereof, they should appear in an Exhibit D which should be attached hereto.)

EXHIBIT A

Form of Note

Place \_\_\_\_\_

Date \_\_\_\_\_, 194\_\_\_\_\_

On or before \_\_\_\_\_, 194\_\_\_\_\_, for value received, \_\_\_\_\_ hereby promises to pay to the order of \_\_\_\_\_ (Financing Institution)

at \_\_\_\_\_ the principal sum of \_\_\_\_\_ (Address)

DOLLARS (\$\_\_\_\_\_) in lawful money of the United States, and to pay interest thereon from the date hereof at the rate of \_\_\_\_\_ per cent per annum, prior to maturity, payable on the \_\_\_\_\_ day of each \_\_\_\_\_ and after maturity by acceleration or otherwise at the rate of \_\_\_\_\_ per cent per annum.

This note evidences a borrowing made under and is subject to the terms of a Loan Agreement dated \_\_\_\_\_, 194\_\_\_\_\_, between the undersigned and the payee hereof.

By \_\_\_\_\_ (Name) \_\_\_\_\_ (Title)

EXHIBIT B

LOAN FORMULA CERTIFICATE

Pursuant to the Loan Agreement between the undersigned and \_\_\_\_\_, dated \_\_\_\_\_, 194\_\_\_\_\_, the undersigned hereby certifies to the best of its knowledge and belief as follows:

- 1. (a) Principal amount of borrowings now outstanding \$\_\_\_\_\_
(b) Principal amount of proposed borrowing, less outstanding borrowings to be refunded \$\_\_\_\_\_
TOTAL \$\_\_\_\_\_

2. The following amounts have been calculated as of \_\_\_\_\_, 194\_\_\_\_\_ (not more than 30 days prior to the date of this certificate) with respect to terminated war contracts listed on or added to Exhibit C, in accordance with accepted principles of accounting and without duplications:

- (a) \_\_\_\_\_% of accounts receivable from Governmental contracting agencies aggregating not less than \$\_\_\_\_\_
(b) \_\_\_\_\_% of accounts receivable from others aggregating not less than \$\_\_\_\_\_
(c) \_\_\_\_\_% of reimbursable expenditures for inventory, including only direct labor, cost of raw materials, purchased parts and supplies, and manufacturing and administrative overhead aggregating not less than \$\_\_\_\_\_
(d) \_\_\_\_\_% of reimbursable amounts for subcontract settlements paid or to be paid concurrently from any new borrowing for which this certificate is furnished aggregating not less than \$\_\_\_\_\_
TOTAL \$\_\_\_\_\_

Less—
(aa) Unliquidated advance payments, progress and partial payments, and any other offsets, and any amounts included in (a), (b), (c), or (d) above which have been disallowed by the contracting agency \$\_\_\_\_\_
BORROWING BASE \$\_\_\_\_\_

3. No amount is included in (a), (b), (c), or (d) above with respect to any item on which a termination claim can be based which exceeds the amount of such item in the Borrower's most recent termination claim, if any has been filed. There has been no change in the amount stated in Paragraph 2 since the date therein specified which would materially decrease the borrowing base.

4. No event exists which constitutes, or which except for notice or lapse of time or both would constitute, a default specified in the Loan Agreement.

(Borrower)

Dated: \_\_\_\_\_, 194\_\_\_\_\_

By \_\_\_\_\_ (Name) \_\_\_\_\_ (Title)

**EXHIBIT C**

**TERMINATED WAR CONTRACTS**

The Borrower certifies that, to the best of its knowledge and belief, the following are terminated war contracts as defined in the Loan Agreement between \_\_\_\_\_ and \_\_\_\_\_ dated \_\_\_\_\_, 194\_\_\_\_\_:

Contract or Order Number	Date of Contract or Order	Name of Other Contracting Party	Date of Notice of Termination	Estimated Amount of Termination Claim	End Use of Product
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\_\_\_\_\_  
(Borrower)

Dated: \_\_\_\_\_, 194\_\_\_\_\_.

By \_\_\_\_\_  
(Name) (Title)

## EXPLANATORY NOTES

### APPROVED BY THE DIRECTOR OF CONTRACT SETTLEMENT WITH RESPECT TO STANDARD FORMS OF T-LOAN GUARANTEE AGREEMENT AND TERMINATION LOAN AGREEMENT

#### GUARANTEE AGREEMENT

##### Opening Paragraph

(1) The guarantee agreement is issued pursuant to the authority contained in the Contract Settlement Act of 1944, the First War Powers Act, 1941, Executive Order 9112, the Act of June 11, 1942 (56 Stat. 351), and other pertinent provisions of law. No changes in the guarantee agreement will be permitted except in the most unusual cases and then only with the concurrence of the Board of Governors of the Federal Reserve System.

(2) Pursuant to section 10(a)(1) of the Contract Settlement Act of 1944, the Guarantor in its authorization or through its local representative will notify the Federal Reserve Bank in writing that the Borrower is or has been engaged in performing an operation deemed by the Guarantor to be connected with or related to war production.

##### Section 1(A)

(3) If one Financing Institution is authorized, as agent for a number of participants, to execute a guarantee agreement in their behalf, the participants should be referred to as "each bank, trust company or other financing institution which is or shall be a party to the loan described in Appendix I annexed hereto" or by some other appropriate reference showing the several nature of the agreement.

##### Section 1(C)

(4) Since the guarantee agreement covers only the loan described in Appendix I, any material alteration in the terms of the loan should be made only with the written consent of the Guarantor in order that the loan, as altered, will be covered by the guarantee.

##### Section 1(E)

(5) The requested percentage of guarantee will not ordinarily be questioned by the Federal Reserve Bank or the Guarantor if it does not exceed 90 per cent.

##### Section 2(B)

(6) Counsel fees incurred by the Financing Institution after a purchase cannot be shared by the Guarantor because of the provisions of 5 U.S.C. 314.

##### Section 3

(7) It is contemplated that a purchase made by the Guarantor under this section shall be for cash. However, if the Guarantor owns an interest in any obligation which has been issued under a revolving credit arrangement, and if, at or before the maturity of such obligation, the Reserve Bank receives written demand from the Financing Institution for the purchase of the same or a lesser amount of a new obligation to be issued in place of such maturing obligation, the payment for the portion of the new obligation purchased pursuant to such demand will be made by the Guarantor by surrendering, at or before maturity, its interest in the maturing obligation, in the amount of the demand by the Financing Institution and without regard to the ten-day period specified in this section.

##### Section 5(A)

(8) Under the first sentence the Guarantor may, after a purchase and transfer, administer the loan either directly or through the agency of the Reserve Bank. It is contemplated that such administration will usually be conducted by the Reserve Bank.

##### Section 6

(9) All amounts paid or credited on the obligation after the date of the demand by the Financing Institution or the Guarantor, as the case may be, for a purchase under this agreement and prior to the date of such purchase will be applied, as provided in this section, according to the respective interests of the Guarantor and the Financing Institution as such interests exist immediately after the purchase.

(10) Subject to any special provision which may be contained in Exhibit D, the Financing Institution may make other loans to the Borrower for the purpose of financing war production or reconversion to civilian business or for other purposes, provided the proceeds of the Contracts (as the term "the Contracts" is defined in Paragraph 1 of Appendix I) or inventory allocable to the Contracts are not pledged as security for such loan. The Financing Institution as security for the side loan may take other collateral and provide that the side loan shall not be required to share with the guaranteed loan any banker's lien or right of setoff with respect to funds of the Borrower, exclusive of proceeds of the Contracts, on general deposit with the Financing Institution or specifically pledged as security for such side loan.

##### Section 7

(11) A schedule of guarantee fees will be prescribed by the Board of Governors of the Federal Reserve System with the concurrence of the Director of Contract Settlement.

##### Section 8

(12) The word "certificate" in Paragraph (B)(2) includes any certificate furnished by the Borrower in connection with the loan formula.

##### General

(13) Whenever a number of days is specified in the Guarantee Agreement or in the Loan Agreement the word "days" shall be deemed to mean calendar days.

LOAN AGREEMENT

Opening Paragraph

(14) If the Borrower and the Financing Institution have agreed upon a non-firm commitment, the words "in its sole discretion" may be inserted before the word "grant". The second sentence of Paragraph 2 applies even in the case of a non-firm commitment and in such a case no figure should be inserted in Paragraph 4.

(15) In the case of a straight loan, the words "at any one time outstanding", should be stricken out.

(16) The note to be used should contain the provisions which appear in the form annexed as Exhibit A to the standard loan agreement, with the blanks appropriately filled in, and may contain such additional provisions, not inconsistent therewith or with the terms of the loan agreement, as the Financing Institution and the Borrower may agree. The note may, for example, contain provisions for sale of collateral in the event of default, allowance for attorneys' fees, etc.

Paragraph 1

(17) The following terms are defined in Section 3 of the Contract Settlement Act of 1944:

"(a) The term 'prime contract' means any contract, agreement, or purchase order heretofore or hereafter entered into by a contracting agency and connected with or related to the prosecution of the war; and the term 'prime contractor' means any holder of one or more prime contracts.

"(b) The term 'subcontract' means any contract, agreement, or purchase order heretofore or hereafter entered into to perform all or any part of the work, or to make or furnish any material to the extent that such material is required for the performance of any one or more prime contracts or of any one or more other subcontracts; and the term 'subcontractor' means any holder of one or more subcontracts.

"(c) The term 'war contract' means a prime contract or a subcontract; and the term 'war contractor' means any holder of one or more war contracts.

"(d) The terms 'termination', 'terminate', and 'terminated' refer to the termination or cancellation, in whole or in part, of work under a prime contract for the convenience or at the option of the Government (except for default of the prime contractor) or of work under a subcontract for any reason except the default of the subcontractor.

\* \* \* \* \*

"(g) The term 'contracting agency' means any Government agency which has been or hereafter may be authorized to make contracts pursuant to section 201 of the First War Powers Act, 1941, and includes the Reconstruction Finance Corporation and any corporation organized pursuant to the Reconstruction Finance Corporation Act (47 Stat. 5), as amended, the Smaller War Plants Corporation, and the War Production Board.

"(h) The term 'termination claim' means any claim or demand by a war contractor for fair compensation for the termination of any war contract and any other claim under a terminated war contract, which regulations prescribed under this Act authorize to be asserted and settled in connection with any termination settlement.

"(m) The term 'final and conclusive,' as applied to any settlement, finding, or decision, means that such settlement, finding, or decision shall not be reopened, annulled, modified, set aside, or disregarded by any officer, employee, or agent of the United States or in any suit, action, or proceeding except as provided in this Act."

With respect to the definition contained in paragraph (g) above, the Director of Contract Settlement will from time to time issue a list of "contracting agencies" indicating those which are currently guaranteeing loans under this Act through the agency of the Federal Reserve Banks.

(18) It will be noted that the definition of "terminated war contract" contained in Paragraph 1 of the loan agreement is broad enough to permit borrowings against receivables and inventory under that part of a partially cancelled contract still remaining to be performed; that under Paragraph 5 assignment of all moneys due and to become due under the entire contract may be required; and that the provisions of Paragraphs 7(c) and 8 apply to all payments under the contract.

(19) Current Commitments on Uncancelled Contracts:

If the Financing Institution and the Borrower desire to enter into a firm commitment for the financing of nonterminated contracts existing on the date of execution of the loan agreement when and if such contracts become terminated, a provision may be added to Exhibit D listing such nonterminated war contracts with an agreement by the Financing Institution that such contracts may, upon termination, be added to Exhibit C without further approval. The addition of terminated war contracts to Exhibit C shall be made by serially numbered supplements filed in five copies with the Financing Institution. The supplements shall be in the same form as Exhibit C with the following added at the lower left hand corner thereof.

Approved: \_\_\_\_\_194

\_\_\_\_\_  
(Financing Institution)

By \_\_\_\_\_  
(Name) (Title)

If the Financing Institution approves of a supplement, it shall sign all copies, retain one for its files, return one to the Borrower, and send the other three copies to the Reserve Bank.

(20) Since the termination loan agreement is designed to finance termination claims rather than production, the Financing Institution may find it advisable to decline to permit inclusion in Exhibit C of contracts which have been terminated only to a minor extent when the effect of their inclusion would probably be to make the proposed borrowing in substantial part a loan for production purposes. The Financing Institution may refuse to permit addition to the list of terminated war contracts contained in Exhibit C of such contracts as are by their terms not assignable, or may require as a condition of the addition of such contracts to the list that the Borrower obtain an appropriate amendment permitting such assignment. It should be noted that prime contracts providing for payments aggregating less than \$1,000 are not assignable under the Assignment of Claims Act of 1940.

## Paragraph 2

(21) The notes may be made payable on demand, or may be 90-day notes, or may have such other maturity, not more than three years after the date of the agreement, as the Financing Institution and the Borrower may agree.

(22) Irrespective of whether or not the Financing Institution is under an obligation under the terms of the agreement to extend further credit, the second sentence of Paragraph 2 is intended to give the Borrower the right to borrow again, from time to time, up to the amount of the notes which have been given in consideration of the loan until the final maturity date inserted in Paragraph 2 or until the notes are finally paid pursuant to Paragraph 8 or otherwise, whichever first occurs.

## Paragraph 3

(23) The maximum interest rate, as prescribed by the Board of Governors of the Federal Reserve System with the concurrence of the Director, is  $4\frac{1}{2}$  per cent per annum simple interest, and interest may not be charged at a greater rate either before or after maturity.

## Paragraph 4

(24) The maximum commitment fee, as prescribed by the Board of Governors of the Federal Reserve System with the concurrence of the Director, is  $\frac{1}{4}$  of 1 per cent per annum based on the average daily unused balance of the maximum principal amount of the loan, or a flat fee of not to exceed \$50 without regard to the amount or maturity of the commitment. Accordingly, the commitment fee, if any is charged, may not exceed this maximum. If a flat fee is charged, the first sentence of the Paragraph should be changed to read: "The Borrower shall pay on ----- a commitment fee of \$-----."

(25) No termination fee, service fee, or other fee of a similar character, except charges covering out-of-pocket expenses of a financing institution, may be charged.

(26) Out-of-pocket expenses do not include any overhead expenses.

## Paragraph 5

(27) The obligation imposed upon the Borrower to make assignments includes the obligation to execute such documents and take such action in connection therewith as the Financing Institution may reasonably require including, in the case of subcontracts, the giving of such notice to the purchasers as may be necessary to perfect the assignments.

(28) The extent to which assignments should be required prior to or contemporaneously with any borrowing under the first sentence of this Paragraph will depend upon the credit standing of the Borrower and upon the practical problems of assignment which may exist in a particular case. The Financing Institution may, by an appropriate writing, agree to except specific contracts from the requirement of assignment, in which case notice of the contracts so excepted should be given to the Reserve Bank. The Financing Institution may also provide in Exhibit D for a general exception. For example, Exhibit D may provide that contracts on Exhibit C as to which the "Estimated Amount of Termination Claim" is less than \$----- need not be assigned unless subsequently requested by the Financing Institution or the Guarantor. If such a provision is included in Exhibit D, the dollar amount of contracts so excluded may, if the Borrower's credit is strong enough to warrant, be made sufficiently high so that Paragraph 5 will in effect merely constitute a covenant to assign upon request of the Financing Institution or the Guarantor.

(29) In the case of a weak credit, the Financing Institution should include, in Exhibit D, a covenant reading substantially as follows:

"At any time upon request of the Financing Institution or the Guarantor, the Borrower will pledge or mortgage as further security for the loan all or any inventory applicable to the Contracts."

Any pledge pursuant to such a covenant should contain a provision for release of inventory so pledged to the extent of payment to the Financing Institution of the cost or proceeds thereof, as the case may be, in accordance with the terms of Paragraph 8 of the loan agreement.

(30) Under the last sentence of this Paragraph, the Financing Institution and the Borrower in suitable cases may agree to a provision in Exhibit D permitting the existence of liens to secure advance payments.

(31) The number of days during which an encumbrance may be permitted to remain on inventory of the Borrower without creating a default, which is to be inserted in the last sentence of this Paragraph, will depend primarily upon the credit standing of the Borrower.

## Paragraph 6

(32) The Financing Institution shall promptly submit to the Reserve Bank two copies of the loan formula certificate furnished by the Borrower at the time of the initial borrowing. In the event of a serious dispute between the Financing Institution and the Borrower as to whether the borrowing base is substantially overstated in value, for the purposes of this Paragraph or of Paragraph 8, the parties may, if they mutually desire, request the Guarantor to consider the matter. If at the time of any borrowing, or at any other time, additional security not referred to in the application or loan agreement and not previously reported is furnished, a report thereof should be promptly made by the Financing Institution to the Reserve Bank.

## Paragraph 7

(33) The Financing Institution may, for example, deem it desirable to require under the first sentence of this Paragraph the furnishing of profit and loss statements, an analysis of surplus, data as to claims under the Borrower's terminated war contracts, and statements as to the insurance required to be maintained by the Borrower under Paragraph 10.

(34) One copy of each of the statements to be furnished under subparagraphs (a), (b) and (c) may be retained by the Financing Institution, and two copies should be forwarded to the Reserve Bank, which will retain one copy and forward the other to the Guarantor or such person as the Guarantor may designate.

(35) Under the definition of payments, a number of different situations are contemplated:

(a) There may be a sale of inventory specifically approved or authorized by the proper authority. In such case, the payment will be the amount of the proceeds; the date of payment will be the date of receipt of the proceeds by the Borrower.

(b) There may be a retention of inventory approved or authorized by the proper authority with a specific credit allowed on any claim filed. In such case, the payment will be the amount of the credit allowed; the date of payment will be the date of the allowance of the credit.

(c) There may be a sale of inventory approved or authorized by the proper authority under a blanket authority to dispose of inventory at not less than cost or at not less than a stated percentage of cost. In such case, the amount of the payment will be the amount of the proceeds; the date of payment will be the date the proceeds of the sale are received by the Borrower.

(d) There may be a definitive election to retain inventory not approved or authorized by the proper authority with a specific credit against the Borrower's claim where claim has been filed or against his potential claim where none has been filed. Such a definitive election to retain occurs when the Borrower relinquishes the right to include the cost of such inventory in his claim and may be evidenced by written notice to the proper authority, by sale of the inventory without specific credit, by incorporation of inventory in civilian products, or by other means. In such case, the amount of the payment will be the cost of the inventory or, if the act of election is a sale, the proceeds of the sale if that is greater than cost; the date of payment will be the date when the definitive act of election was made.

In the case of a prime contract the "proper authority" to approve or authorize dispositions or retentions of property is the contracting agency. In the case of subcontracts the "proper authority" may be the purchaser or the contracting agency or both depending on the circumstances and the applicable regulations. The word "cost" refers to the Borrower's costs or expenditures used in computing the borrowing base.

#### **Paragraph 8**

(36) The Government does not undertake responsibility for assisting in the financing of civilian inventory under the provisions of the Contract Settlement Act of 1944. Therefore, the Financing Institution, if it prescribes a period in excess of three days, should prescribe a reasonably short period within which the payments required by Paragraph 8 are to be made. The Financing Institution may prescribe different periods for payments arising out of the several classes of events upon the happening of which payments are required to be made, and may prescribe a period of grace for small payments. If the credit of the Borrower is not strong, prompt payment should be required, particularly in the event of inventory retention.

(37) If either the Financing Institution or the Guarantor notifies the Borrower of an overstatement pursuant to clause (b) of Paragraph 8, it should forthwith notify the other party to the Guarantee Agreement.

#### **Paragraph 9**

(38) If the Borrower has subsidiaries and if it is desired to use *consolidated* net current assets as a basis, this should be specified in Exhibit D. In this event, consideration should be given to whether or not any restrictions imposed upon the parent should also be applied to the subsidiaries.

#### **Paragraph 11**

(39) The standard form of loan agreement is designed for use in connection with a straight loan or a revolving credit, a firm commitment or a loan under which the Financing Institution is not obligated to extend further credit, a single bank credit arrangement or a multi-bank credit arrangement, and for a strong credit or a weak credit. It is recognized that the Financing Institution and the Borrower may wish to add in Exhibit D further provisions appropriate for the particular financing arrangement between them.

(40) Conditions other than those required under Appendix I will be prescribed by the Guarantor or the Federal Reserve Bank only in exceptional circumstances and when they are clearly necessary to protect the Government's interest; but it is expected that the Financing Institution, in the case of a weak credit, will ordinarily insist upon the inclusion of the provision quoted in Explanatory Note (29). Additional conditions for inclusion in Exhibit D may be agreed upon by the Borrower and the Financing Institution and, if not unreasonable or inconsistent with the standard termination loan agreement, such conditions will not be objected to by the Guarantor or the Reserve Bank.

(41) The Guarantor will have no objection to the insertion of a provision requiring the Borrower to apply first to the Financing Institution before obtaining any other loans. The Financing Institution may also insert an additional provision prohibiting other borrowings, without the consent of the Financing Institution, or placing a ceiling thereon.

(42) In order that additional terms may be clearly distinguished from the provisions of the standard form, all such additional terms should be set forth in Exhibit D or in a rider attached thereto.

(43) In any case where either the Financing Institution or the Guarantor exercises its option under the Loan Agreement to terminate the credit and accelerate the notes, it should forthwith notify the other party to the Guarantee Agreement.

#### **Exhibit B—Paragraph 2**

(44) In general, the percentages in the loan formula certificate agreed upon by the Financing Institution and the Borrower will not be questioned by the Federal Reserve Bank or the Guarantor.

(45) If a breakdown between manufacturing and administrative overhead is available, it should be furnished by the Borrower, and in this case the words "and administrative" may be omitted from item (c) and an additional item relating solely to administrative overhead may be added. Similarly, where circumstances warrant, there may also be added a separate item relating to other reimbursable expenditures, provided that a breakdown of such item is furnished and approved. In any of the above cases, the additional items will be lettered (e), (f), etc. If a further breakdown of expenditures is desired, as between fixed-price and cost-plus-a-fixed-fee contracts or as between prime contracts and subcontracts or as between approved and unapproved subcontract settlements, this may be accomplished by similar procedure.

(46) With reference to (aa), amounts "disallowed by the contracting agency" include any part of a termination claim disallowed pursuant to Section 13 of the Act regardless of whether the Borrower has taken an appeal, except to the extent that such appeal is sustained.

#### **Exhibit B—Paragraph 3**

(47) It is expected that in all cases the Borrower will exercise due diligence in filing termination claims as promptly as possible. Due to the widely varying factors involved, such as the number of Borrower's cancelled contracts and the relative simplicity or complexity of preparing his claims, it is not deemed feasible to prescribe any uniform time within which claims must be filed. However, where the Financing Institution and the Borrower can agree in advance upon a reasonable time for filing claims, they can of course provide for such a limitation in Exhibit D.

**APPLICATION**

**By**

**FINANCING INSTITUTION**

**FOR T (TERMINATION) LOAN GUARANTEE**

*To Federal Reserve Bank of*

*, Fiscal Agent of the United States*

-----  
(Date)

1. Name and location of financing institution:
  
2. Name and location of prospective borrower:
  
3. Maximum principal amount of loan:
  
4. Specify or describe war contracts excepted from initial assignment of collateral pursuant to Paragraph 5 of Loan Agreement: (See Explanatory Note No. 28.)
  
5. Present indebtedness of borrower to financing institution, if any, and statement as to whether it is proposed to refund such indebtedness:
  
6. If a substantial portion of the stock of borrower or of financing institution is controlled by the other, or a substantial portion of the stock of both is controlled by the same interests, or if there are any officers or directors common to both, describe such relationship briefly.
  
7. Each copy of application should be accompanied by:
  - (a) copy of the proposed guarantee agreement and loan agreement, including exhibits,
  - (b) copy of balance sheet and operating statement for latest fiscal period certified by borrower (audited statements to be furnished if available),
  - (c) copy of latest available balance sheet and operating statement since close of fiscal period.

8. (a) If borrower is a PRIME Government war contractor, give the following information with respect to each prime contract:

Govt. agency with which prime contract is held	Date of contract	Contract number	Is contract a fixed price contract? Cost plus fixed fee contract?	Uncompleted amount of unterminated contracts	Estimated claims on terminated contracts	Nature of product



8. (b) If borrower is a SUBCONTRACTOR, give the following information with respect to each subcontract:

Name and address of concern issuing subcontract	Subcontract or purchase order number	Govt. agency for which products are being provided and prime contract number if known	Uncompleted amount of untermiated subcontracts or purchase orders	Estimated claims on terminated subcontracts or purchase orders	Nature of product

9. Statement of financing institution's opinion or belief with respect to each of the following:

- (a) whether borrower's general war production record has been satisfactory with special reference to rejection experience,
- (b) borrower's general character and reputation,
- (c) adequacy of accounting records and inventory control,
- (d) unusual aspects of financial statements, and
- (e) other information which financing institution would ordinarily take into account in considering a loan to borrower, including respects, if any, in which borrower's financial background has been unsatisfactory.

*(Attach rider, if space inadequate)*

10. Borrower has been advised that financing institution is applying for this guarantee in the amount and subject to the terms indicated in the proposed loan agreement.

-----  
(Full name of financing institution)

By -----  
(Signature) (Title)