

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 70-139

June 18, 1970

To All Banks and Others Concerned  
in the Eleventh Federal Reserve District:

REPRINT OF REGULATION V AND AMENDED  
SUPPLEMENT TO REGULATION V

Enclosed are the following:

1. A reprint, in the new larger size, of Regulation V, "Loan Guarantees for Defense Production" (32A CFR Ch. XV) as amended effective September 27, 1966.
2. Amended Supplement to Regulation V effective June 4, 1970.

The Board of Governors of the Federal Reserve System on June 4, 1970 amended Section 7(a) of the Supplement to Regulation V. The purpose of the amendment is to expand, to a limited extent, the authority of the governmental agencies guaranteeing a loan under the Defense Production Act of 1950, as amended, to prescribe from time to time a higher interest rate than otherwise payable on such loan if the agency determines that such higher rate is necessary in obtaining V-loan financing of a contractor or other operation essential to the national defense.

Additional copies of the enclosures will be furnished upon request.

Yours very truly,

P. E. Coldwell

President

Enclosures (2)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION V

AS AMENDED

Effective June 4, 1970

SECTION 7—MAXIMUM RATES OF  
INTEREST, GUARANTEE FEES, AND  
COMMITMENT FEES

*Guarantee Fee*  
(Per cent of interest  
payable by borrower on  
guaranteed portion of  
loan)

*Per cent of  
loan guaranteed*

70 or less	10
75	15
80	20
85	25
90	30
95	35
Over 95	40–50

Pursuant to the provisions of the Defense Production Act of 1950 and Executive Order No. 10480, dated August 14, 1953, as amended, the Board of Governors of the Federal Reserve System hereby prescribes the maximum rate of interest, guarantee fees, and commitment fees which may be charged with respect to guaranteed loans executed through the agency of any Federal Reserve Bank:

(a) **Maximum rate of interest.** The maximum interest rate charged a borrower by a financing institution with respect to a guaranteed loan shall not exceed 7½ per cent per annum, except that the agency guaranteeing a particular loan may from time to time prescribe a higher rate if it determines the loan to be necessary for the purpose of financing any contractor, subcontractor, or other person in connection with the performance of any contract or other operation deemed by the guaranteeing agency to be necessary to expedite production and deliveries or services under Government contracts for the procurement of materials or the performance of services for the national defense.

(b) **Guarantee fees.** The schedule of fees with respect to guaranteed loans is as follows:

In any case in which the rate of interest on the loan is in excess of 6 per cent, the guarantee fee shall be computed as though the interest rate were 6 per cent.

(c) **Commitment fees.** In any case in which a commitment fee is charged a borrower with respect to a guaranteed loan, such fee shall not exceed ½ of 1 per cent per annum. In any such case, the financing institution will pay to the guaranteeing agency a percentage of such commitment fee, based on the guaranteed portion of the credit, equal to the same percentage of the interest payable on the loan which is required to be paid by the financing institution to the guarantor as a guarantee fee.

Explanatory Comment

The purpose of this amendment is to permit the governmental agency guaranteeing a loan under the Defense Production Act of 1950, as amended, to prescribe from time to time a higher interest rate than otherwise payable on such loan if the agency determines that such higher rate is necessary in obtaining V-loan financing of a contract or other operation essential to the national defense.

**BOARD OF GOVERNORS**  
of the  
**FEDERAL RESERVE SYSTEM**

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**LOAN GUARANTEES FOR DEFENSE PRODUCTION**

**REGULATION V**

(32A CFR Ch. XV)

As amended effective September 27, 1966



**Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve District in which the inquiry arises.**

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[SEC. 7—SUPPLEMENT, MAXIMUM RATES OF INTEREST, GUARANTEE FEES, AND COMMITMENT FEES, is printed separately.]

# REGULATION V

(32A CFR Ch. XV)

As amended effective September 27, 1966

## LOAN GUARANTEES FOR DEFENSE PRODUCTION \*

### SECTION 1—AUTHORITY

This regulation is based upon and issued pursuant to the Defense Production Act of 1950 (referred to in this regulation as the "Act"), and Executive Order No. 10480, dated August 14, 1953 as amended (3 CFR 1949-1953 Comp., p. 962) (referred to in this regulation as the "Order"), and after consultation with the heads of the guaranteeing agencies designated in the Act and the Order, namely the Department of the Army, the Department of the Navy, the Department of the Air Force, the Department of Commerce, the Department of the Interior, the Department of Agriculture, the General Services Administration, the Atomic Energy Commission, the Defense Supply Agency, and the National Aeronautics and Space Administration.

### SECTION 2—OBJECTIVES OF FEDERAL RESERVE SYSTEM

In carrying out its functions under the Act and the Order, it will be the objective of the Federal Reserve System to facilitate and expedite to the greatest extent possible the financing of contractors, subcontractors, and other persons having contracts or engaged in operations deemed by the guaranteeing agencies to be necessary to expedite production and deliveries or services under Gov-

ernment contracts for the procurement of materials or the performance of services for the national defense. The Board of Governors of the Federal Reserve System (referred to in this regulation as the "Board") and the Federal Reserve Banks will cooperate fully with the guaranteeing agencies in order to achieve this objective and will follow in general and to the extent applicable procedures developed from experience obtained in the administration of the V-loan and T-loan programs during World War II.

### SECTION 3—PROCEDURES

(a) **Applications.** Any private financing institution may submit to the Federal Reserve Bank of its district an application for a guarantee of a loan to an eligible borrower. Such application shall be in such form and contain such information as the Board may prescribe after consultation with the guaranteeing agencies.

(b) **Eligibility of borrower.** No loan shall be guaranteed unless it shall first be determined that the contract or other operation of the prospective borrower to be financed by such loan is one which is deemed by the guaranteeing agency involved to be necessary to expedite production and deliveries or services under a Government contract for the procurement of materials or the performance of services for the national defense. Such determination will be made in each case by a duly authorized certifying officer of the appropriate guaranteeing agency or in such other manner as

\* This text corresponds to the Code of Federal Regulations, Title 32A, Chapter XV, Reg. V; cited as 32A CFR ch. XV, Reg. V.

the guaranteeing agency may prescribe. The determination will be made upon the basis of information contained in the application and accompanying papers filed by the applicant financing institution, unless in the circumstances of a particular case it appears that further information is necessary.

(c) **Approval of guarantees.** Each application by a financing institution for a loan guarantee will be subject to approval by the appropriate guaranteeing agency in Washington or, to such extent as the guaranteeing agency may prescribe, by the Federal Reserve Bank to which the application is submitted. In any case in which an application is required to be submitted to Washington for approval, the Federal Reserve Bank will transmit the application, together with all necessary supporting information and the recommendation of the Federal Reserve Bank, through the Board of Governors to the guaranteeing agency involved. Subject to determination of the borrower's eligibility, if the application is approved by a duly authorized contracting officer of the guaranteeing agency, such contracting officer will authorize the Federal Reserve Bank to execute and deliver the guarantee on behalf of the guaranteeing agency. Such authorization will be transmitted to the Federal Reserve Bank through the Board of Governors; and, thereupon, the Federal Reserve Bank, acting as fiscal agent of the United States, will execute and deliver the guarantee on behalf of the guaranteeing agency in accordance with the terms of the authorization. In any case in which the Federal Reserve Bank is authorized by a guaranteeing agency to approve applications for guarantees, the Reserve Bank, if it approves the application and subject to determination of the borrower's eligibility, will execute and deliver the guarantee without submission of the application for prior approval by any officer of the guaranteeing agency; but the Reserve Bank will promptly notify the guaranteeing agency of the execution of such guarantee.

(d) **Other forms and procedures.** The Board will prescribe from time to time, after consultation with the guaranteeing agencies, forms to be followed in the execution of guarantees pursuant to this regulation and such other forms as may be necessary. The Board will also prescribe, after consultation with the guaranteeing agencies, pro-

cedures with respect to such matters as the purchase of guaranteed loans by the Federal Reserve Banks as fiscal agents, the handling and disposition by the Federal Reserve Banks of guarantee fees and other fees collected, and such other procedures as may be found necessary.

#### SECTION 4—RESPONSIBILITY OF FEDERAL RESERVE BANKS

A Federal Reserve Bank in arranging for or making any guarantee on behalf of any guaranteeing agency will be expected to make reasonable efforts to afford such guaranteeing agency the best available protection against possible financial loss consistent with the obtaining of national defense production expeditiously. No Federal Reserve Bank, however, shall have any responsibility or accountability except as agent in taking any action pursuant to or under authority of the Act, the Order, or this regulation. Each Federal Reserve Bank will be reimbursed by each guaranteeing agency in the usual manner for all expenses and losses incurred by the Reserve Bank in acting as agent on behalf of such guaranteeing agency, including among such expenses, notwithstanding any other provision of law, attorneys' fees and expenses of litigation.

#### SECTION 5—RATES AND FEES

Rates of interest, guarantee fees, commitment fees, and other charges which may be made with respect to guaranteed loans and guarantees executed through the agency of any Federal Reserve Bank under this regulation will from time to time be prescribed, either specifically or by maximum limits or otherwise, in § 7 (the Supplement) by the Board of Governors after consultation with the guaranteeing agencies.

#### SECTION 6—REPORTS

Each Federal Reserve Bank shall make such reports as the Board of Governors shall require with respect to its operations pursuant to the terms of the Act, the Order and this regulation.

(SECTION 7—MAXIMUM RATES OF INTEREST, GUARANTEE FEES, AND COMMITMENT FEES, is published separately.)

## STATUTORY APPENDIX

## DEFENSE PRODUCTION ACT OF 1950

Act of September 8, 1950 (64 Stat. 798)

\* \* \* \* \*

TITLE III—EXPANSION OF PRODUCTIVE  
CAPACITY AND SUPPLY

SEC. 301. (a) In order to expedite production and deliveries or services under Government contracts, the President may authorize, subject to such regulations as he may prescribe, the Department of the Army, the Department of the Navy, the Department of the Air Force, the Department of Commerce, and such other agencies of the United States engaged in procurement for the national defense as he may designate (hereinafter referred to as "guaranteeing agencies"), without regard to provisions of law relating to the making, performance, amendment, or modification of contracts, to guarantee in whole or in part any public or private financing institution (including any Federal Reserve bank), by commitment to purchase, agreement to share losses, or otherwise, against loss of principal or interest on any loan, discount, or advance, or on any commitment in connection therewith, which may be made by such financing institution for the purpose of financing any contractor, subcontractor, or other person in connection with the performance of any contract or other operation deemed by the guaranteeing agency to be necessary to expedite production and deliveries or services under Government contracts for the procurement of materials or the performance of services for the national defense, or for the purpose of financing any contractor, subcontractor or other person in connection with or in contemplation of the termination, in the interest of the United States, of any contract made for the national defense; but no small-business concern (as defined in section 714(a)(1) of this Act) shall be held ineligible for the issuance of such a guaranty by reason of alternative sources of supply.

(b) Any Federal agency or any Federal Reserve bank, when designated by the President, is hereby authorized to act, on behalf of any guaranteeing agency, as fiscal agent of the United States in the making of such contracts of guarantee and

in otherwise carrying out the purposes of this section. All such funds as may be necessary to enable any such fiscal agent to carry out any guarantee made by it on behalf of any guaranteeing agency shall be supplied and disbursed by or under authority from such guaranteeing agency. No such fiscal agent shall have any responsibility or accountability except as agent in taking any action pursuant to or under authority of the provisions of this section. Each such fiscal agent shall be reimbursed by each guaranteeing agency for all expenses and losses incurred by such fiscal agent in acting as agent on behalf of such guaranteeing agency, including among such expenses, notwithstanding any other provision of law, attorneys' fees and expenses of litigation.

(c) All actions and operations of such fiscal agents under authority of or pursuant to this section shall be subject to the supervision of the President, and to such regulations as he may prescribe; and the President is authorized to prescribe, either specifically or by maximum limits or otherwise, rates of interest, guarantee and commitment fees, and other charges which may be made in connection with loans, discounts, advances, or commitments guaranteed by the guaranteeing agencies through such fiscal agents, and to prescribe regulations governing the forms and procedures (which shall be uniform to the extent practicable) to be utilized in connection with such guarantees.

(d) Each guaranteeing agency is hereby authorized to use for the purposes of this section any funds which have heretofore been appropriated or allocated or which hereafter may be appropriated or allocated to it, or which are or may become available to it, for such purposes or for the purpose of meeting the necessities of the national defense.

[U.S.C., title 50, App. sec 2091.]

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## TITLE VII—GENERAL PROVISIONS

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SEC. 702. As used in this Act—

(a) The word "person" includes an individual, corporation, partnership, association, or any other organized group of persons, or legal successor or representative of the foregoing, and includes the

United States or any agency thereof, or any other government, or any of its political subdivisions, or any agency of any of the foregoing: *Provided*, That no punishment provided by this Act shall apply to the United States, or to any such government, political subdivision, or government agency.

(b) The word "materials" shall include raw materials, articles, commodities, products, supplies, components, technical information, and processes.

(c) The word "facilities" shall not include farms, churches or other places of worship, or private dwelling houses.

(d) The term "national defense" means programs for military and atomic energy production or construction, military assistance to any foreign nation, stockpiling, and directly related activity.

\* \* \* \* \*

[U.S.C., title 50, App. sec. 2152.]

SEC. 703. (a) Except as otherwise specifically provided, the President may delegate any power or authority conferred upon him by this Act to any officer or agency of the Government, including any new agency or agencies (and the President is hereby authorized to create such new agencies, other than corporate agencies, as he deems necessary), and he may authorize such redelegations by that officer or agency as the President may deem appropriate. \* \* \*

\* \* \* \* \*

[U.S.C., title 50, App. sec. 2153.]

SEC. 704. The President may make such rules, regulations, and orders as he deems necessary or appropriate to carry out the provisions of this Act. Any regulation or order under this Act may be established in such form and manner, may contain such classifications and differentiations, and may provide for such adjustments and reasonable exceptions as in the judgment of the President are necessary or proper to effectuate the purposes of this Act, or to prevent circumvention or evasion, or to facilitate enforcement of this Act, or any rule, regulation, or order issued under this Act. \* \* \*

[U.S.C., title 50, App. sec. 2154.]

\* \* \* \* \*

SEC. 709. The functions exercised under this Act shall be excluded from the operation of the

Administrative Procedure Act (60 Stat. 237) except as to the requirements of section 3 thereof. Any rule, regulation, or order, or amendment thereto, issued under authority of this Act shall be accompanied by a statement that in the formulation thereof there has been consultation with industry representatives, including trade association representatives, and that consideration has been given to their recommendations, or that special circumstances have rendered such consultation impracticable or contrary to the interest of the national defense, but no such rule, regulation, or order shall be invalid by reason of any subsequent finding by judicial or other authority that such a statement is inaccurate.

[U.S.C., title 50, App. sec. 2159.]

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SEC. 711. There are hereby authorized to be appropriated such sums as may be necessary and appropriate for the carrying out of the provisions and purposes of this Act by the President and such agencies as he may designate or create. Funds made available for the purposes of this Act may be allocated or transferred for any of the purposes of this Act, with the approval of the Bureau of the Budget, to any agency designated to assist in carrying out this Act. Funds so allocated or transferred shall remain available for such period as may be specified in the Acts making such funds available.

[U.S.C., title 50, App. sec. 2161.]

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SEC. 717. (a) Title I (except section 104), title III, and title VII (except section 714) of this Act, and all authority conferred thereunder, shall terminate at the close of June 30, 1970. Section 714 of this Act, and all authority conferred thereunder, shall terminate at the close of July 31, 1953. Section 104, title II, and title VI of this Act, and all authority conferred thereunder, shall terminate at the close of June 30, 1953. Titles IV and V of this Act, and all authority conferred thereunder, shall terminate at the close of April 30, 1953.

(b) Notwithstanding the foregoing—

(1) The Congress by concurrent resolution or the President by proclamation may terminate this Act prior to the termination otherwise provided therefor.



(2) The Congress may also provide by concurrent resolution that any section of this Act and all authority conferred thereunder shall terminate prior to the termination otherwise provided therefor.

(3) Any agency created under this Act may be continued in existence for purposes of liquidation for not to exceed six months after the termination of the provision authorizing the creation of such agency.

(c) The termination of any section of this Act, or of any agency or corporation utilized under this Act, shall not affect the disbursement of funds under, or the carrying out of, any contract, guarantee, commitment or other obligation entered into pursuant to this Act prior to the date of such termination, or the taking of any action necessary to preserve or protect the interests of the United States in any amounts advanced or paid out in carrying on operations under this Act, or the taking of any action (including the making of new guarantees) deemed by a guaranteeing agency to be necessary to accomplish the orderly liquidation, adjustment or settlement of any loans guaranteed under this Act, including actions deemed necessary to avoid undue hardship to borrowers in re-converting to normal civilian production; and all of the authority granted to the President, guaranteeing agencies, and fiscal agents, under section 301 of this Act shall be applicable to actions taken pursuant to the authority contained in this subsection.

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[U.S.C., title 50, App. sec. 2166.]

EXECUTIVE ORDER NO. 10480

\* \* \* \* \*  
PART III. EXPANSION OF PRODUCTIVE  
CAPACITY AND SUPPLY

SEC. 301. The Department of Defense, the Atomic Energy Commission, the Department of Commerce, the Department of the Interior, the Department of Agriculture, the General Services Administration, and the National Aeronautics and Space Administration, in this Part referred to as guaranteeing agencies, each officer having functions delegated to him pursuant to section 201(a) of this order, and each other agency of the Government having mobilization functions, shall,

within areas of production designated by the Director of the Office of Emergency Planning, develop and promote measures for the expansion of productive capacity and of production and supply of materials and facilities necessary for the national defense.

SEC. 302. (a) Each guaranteeing agency is hereby authorized, in accordance with section 301 of the Defense Production Act of 1950, as amended, subject to the provisions of this section, in order to expedite production and deliveries or services under Government contracts, and without regard to provisions of law relating to the making, performance, amendment, or modification of contracts, to guarantee in whole or in part any public or private financing institution (including any Federal Reserve Bank), by commitment to purchase, agreement to share losses, or otherwise, against loss of principal or interest on any loan, discount, or advance, or on any commitment in connection therewith, which may be made by such financing institution for the purpose of financing any contractor, subcontractor, or other person in connection with the performance of any contract or other operation deemed by the guaranteeing agency to be necessary to expedite production and deliveries or services under Government contracts for the procurement of materials or the performance of services for the national defense, or for the purpose of financing any contractor, subcontractor, or other person in connection with or in contemplation of the termination, in the interest of the United States, of any contract made for the national defense; but no small business concern (as defined in section 714(a)(1) of the said Act) shall be held ineligible for the issuance of such a guaranty by reason of alternative sources of supply.

(b) Each Federal Reserve Bank is hereby designated and authorized to act, on behalf of any guaranteeing agency, as fiscal agent of the United States in the making of such contracts of guarantee and in otherwise carrying out the purposes of section 301 of the said Act, as amended, in respect to private financing institutions.

(c) All actions and operations of Federal Reserve Banks, under authority of or pursuant to section 301 of the said Act, as amended, shall be subject to the supervision of the Board of Governors of the Federal Reserve System. Said Board

is hereby authorized, after consultation with the heads of the guaranteeing agencies, (1) to prescribe such regulations governing the actions and operations of fiscal agents hereunder as it may deem necessary, (2) to prescribe, either specifically or by maximum limits or otherwise, rates of interest, guarantee and commitment fees, and other charges which may be made in connection with loans, discounts, advances, or commitments guaranteed by the guaranteeing agencies through such fiscal agents, and (3) to prescribe regulations governing the forms and procedures (which shall be uniform to the extent practicable) to be utilized in connection with such guarantees.

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PART VI. GENERAL PROVISIONS

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SEC. 602. (a) Except as otherwise provided in section 602(c) of this order, each officer or agency of the Government having functions under the Defense Production Act of 1950, as amended, delegated or assigned thereto by or pursuant to this Executive order may exercise and perform, with respect to such functions, the functions vested in the President by Title VII of the said Act.

(b) The functions which may be exercised and performed pursuant to the authority of section 602(a) of this order shall include, but not by way of limitation, (1) except as otherwise provided in section 708(c) of the Defense Production Act of 1950, as amended, the power to redelegate functions, and to authorize the successive redelegation of functions, to agencies, officers, and

employees of the Government, (2) the power to create an agency or agencies, under the jurisdiction of the officer concerned, to administer functions delegated or assigned by or pursuant to this order, and (3) in respect of Part II of this order, the power of subpoena: *Provided*, That the subpoena power shall be utilized only after the scope and purpose of the investigation, inspection, or inquiry to which the subpoena relates have been defined either by the appropriate officer referred to in section 602(a) of this order or by such other person or persons as he shall designate.

(c) There are excluded from the functions delegated by section 602(a) of this order (1) the functions delegated by Part V of this order, (2) the functions of the President with respect to regulations under section 710(b), (c), (d), and (e) of the Defense Production Act of 1950, as amended, and (3) the functions of the President with respect to fixing compensation under section 703(a) of the said Act.

SEC. 603. All agencies of the Government (including, as used in this order, departments, establishments, and corporations) shall furnish to each officer of the Government to whom functions under the Defense Production Act of 1950, as amended, are delegated or assigned by or pursuant to this order such information relating to defense production or procurement, or otherwise relating to the said functions, delegated or assigned to such officer by or pursuant to this order as may be required to perform those functions.

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[U.S.C., title 50, App. sec. 2153 annotation.]