



FEDERAL RESERVE BANK
OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

DALLAS, TEXAS
75265-5906

November 4, 1996

Notice 96-111

TO: The Chief Executive Officer of each
financial institution and others concerned
in the Eleventh Federal Reserve District

SUBJECT

**Repeal of Regulation V
(Loan Guarantees for Defense Production)**

DETAILS

The Board of Governors of the Federal Reserve System has repealed Regulation V (Loan Guarantees for Defense Production). This action does not represent any policy change, but rather eliminates an outmoded regulation and reduces burden. The repeal became effective October 9, 1996.

A copy of the Board's notice as it appears on pages 52875-76, Vol. 61, No. 161, of the *Federal Register* dated October 9, 1996, is attached.

MORE INFORMATION

For more information, please contact Finlay Higgins at (214) 922-5333. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

Robert D. McTeer, Jr.

For additional copies, bankers and others are encouraged to use one of the following toll-free numbers in contacting the Federal Reserve Bank of Dallas: Dallas Office (800) 333-4460; El Paso Branch *Intrastate* (800) 592-1631, *Interstate* (800) 351-1012; Houston Branch *Intrastate* (800) 392-4162, *Interstate* (800) 221-0363; San Antonio Branch *Intrastate* (800) 292-5810.

FEDERAL RESERVE SYSTEM**12 CFR Part 245**

[Regulation V; Docket No. R-0928]

Loan Guarantees for Defense Production**AGENCY:** Board of Governors of the Federal Reserve System.**ACTION:** Final rule.

SUMMARY: The Board is repealing its Regulation V on loan guarantees for defense production as obsolete. This action does not represent any policy change, but rather eliminates an outmoded regulation and reduces regulatory burden.

EFFECTIVE DATE: October 9, 1996.

FOR FURTHER INFORMATION CONTACT: Oliver Ireland, Associate General Counsel (202-452-3625), Heatherun Allison, Attorney (202-452-3565), Legal Division; for users of the Telecommunications Device for the Deaf (TDD) only, Dorothea Thompson (202-452-3544); Board of Governors of the Federal Reserve System, Washington, DC 20551.

SUPPLEMENTARY INFORMATION:**I. Background**

Pursuant to Section 303 of the Riegle Community Development and Regulatory Improvement Act of 1994, requiring the Board of Governors of the Federal Reserve System (the Board) to conduct a review of its regulations and written policies in order to improve efficiency, reduce unnecessary costs, eliminate unwarranted constraints on credit availability, and to remove inconsistencies and outmoded and duplicative requirements, the Board proposed to repeal Regulation V, concerning the loan guarantee program under the Defense Production Act of 1950 (50 U.S.C. app. 2061) (the Act). The Board requested public comment on this proposed regulatory change on May 28, 1996 (61 FR 26471). Board staff also solicited the views of the guaranteeing departments and agencies (as defined in the Act) consistent with Executive Order 12919 (June 3, 1994) and Executive Order 10789 (November

14, 1958) (as amended), implementing the Act.

Authority for Regulation V

The Board promulgated Regulation V (12 CFR 245) pursuant to the Act "to facilitate the financing of contracts or other operations deemed necessary to national defense production." Section 301(a)(1) of the Act allows the President to authorize "guaranteeing agencies" to enter into guarantees with public or private financing institutions concerning contracts "deemed by the guaranteeing agency to be necessary to expedite or expand production and deliveries or services under Government contracts for the procurement of industrial resources or critical technology items essential to 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; * * *," Section 301(a)(1) of the Act defines "guaranteeing agencies" as the Department of Defense, the Department of Energy, the Department of Commerce, "and such other agencies of the United States engaged in procurement for the national defense as he may designate." Exec. Order No. 12919 (1994) provides that "the head of each Federal department or agency engaged in procurement for the national defense * * * and the President and chairman of the Export-Import Bank of the United States" is authorized to guarantee public or private financing institutions as provided in Section 301 of the Act.¹ In furtherance of this authorization, Exec. Order No. 12919 provides that "The Board of Governors of the Federal Reserve System is authorized, after consultation with heads of guaranteeing departments and agencies, the Secretary of the Treasury, and the Director, OMB, to prescribe regulations governing procedures, forms, rates of interest, and fees for [loan] guarantee contracts." Exec. Order No. 12919, 59 FR 29525 (1994).² The Board exercised this

¹ The "head of each Federal department or agency engaged in procurement for the national defense" is defined as the head of each of the departments and agencies listed in Exec. Order No. 10789 (1958), consisting of the following Departments: Defense, Army, Navy, Air Force, Treasury, Interior, Agriculture, Commerce, Transportation, Nuclear Regulatory Commission, General Services Administration, National Aeronautics & Space Administration, Tennessee Valley Authority, General Printing Office, and Federal Emergency Management Agency. Exec. Order No. 10789, 23 FR 8897 (1958), as amended.

² A similar provision was formerly set forth in Section 302(c) of Exec. Order No. 10480 (1953). Exec. Order No. 10480 was revoked by Exec. Order No. 12919 (1994).

authorization in implementing Regulation V in the 1950s. Regulation V was modified and streamlined in 1979.

Purpose of Regulation V

The loan guarantee provisions of the Act were intended to permit defense agencies to enter into defense-related contracts without regard to whether appropriations had been made for the underlying projects. Without the appropriations, defense agencies would lack the legal authority to make progress payments to defense contractors. Without progress payments, contractors would not have the working capital to perform their contracts unless they could obtain financing from private banking institutions, which might be reluctant to lend for the performance of contracts if the funds for the contract had not been appropriated. Thus, while the Act contemplates that defense-contract funding would be obtained from private banks, the loan guarantees provisions of the Act would enable the funding and therefore the continued production of items deemed necessary to the national defense by ensuring private banks of repayment when the contract was completed. Regulation V sets forth applicable procedures, forms, fees, charges and rates of interest for these loan guarantees, in which a Federal Reserve Bank acts as the fiscal agent of one or more specified federal departments or agencies for the guarantee by that department or agency of a defense production loan made by a private financing institution.

Decline in Use of Regulation V

The Act and the Executive Orders implementing it have periodically expired and subsequently been reauthorized. However, in 1975, the Act was amended to make the guarantee provisions unnecessary for most practical purposes. These amendments provided that "all authority hereby or hereafter extended under title III [relating to expansion of productive capacity and supply, including loan guarantee provisions] shall be effective for any fiscal year only to such extent or in such amounts as are provided in advance in appropriation Acts." 50 U.S.C. app. 2166(a). Thus, under the 1975 amendments, defense agencies that have authority to authorize loan guarantees have authority to do so only if funds have been appropriated for the contract in question. Once funds have been appropriated, however, there is little need for the guarantee, because the appropriated funds can be paid timely in accordance with the defense contracts. Notwithstanding the 1975 amendments, the loan guarantee

provisions of the Act were not deleted. No loan guarantees are currently outstanding and no applications for loan guarantees have been filed for several years.

Repeal of Regulation V

Repealing Regulation V will achieve the objectives of Section 303 of the Riegle Community Development and Regulatory Improvement Act of 1994 by improving efficiency and removing outmoded requirements while at the same time not adversely affecting the abilities of any parties to participate in a loan guarantee should the need arise. Repealing Regulation V will not affect the existence or availability of the loan guarantee program as provided by the Act. Although the 1975 amendments to the Act make it unlikely that a loan guarantee application will be filed, the Board and the Federal Reserve Banks will be able to perform their fiscal agency and application coordination responsibilities under the Act in the event such an application is filed using fiscal agency procedures already in place in other contexts and on a case-by-case basis.

II. Overview of Comments Received

The Board received 5 comment letters on the proposal. The comment letters consisted of 4 letters from Federal Reserve Banks and one letter from the National Aeronautics and Space Administration. In addition, in response to its solicitation of the views of "guaranteeing agencies" under the Act, the Board received a letter from the United States Government Printing Office and a letter from the Department of Agriculture. All commenters expressed support for the proposal.

III. Description of the Final Rule

The final rule deletes 12 CFR 245 as obsolete.

IV. Regulatory Flexibility Act

Pursuant to section 605(b) of the Regulatory Flexibility Act, the Board hereby certifies that this final rule will not have a significant economic impact on a substantial number of small entities. The final rule does not impose any requirements, but rather deletes an outmoded regulation as obsolete.

V. Paperwork Reduction Act of 1995

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. Ch. 3506; 5 CFR 1320 Appendix A.1), the Board reviewed the rule under the authority delegated to the Board by the Office of Management and Budget. No collections of information pursuant to

the Paperwork Reduction Act are contained in the final rule.

List of Subjects in 12 CFR Part 245

Federal Reserve System, Government contracts, Loan programs-National defense, National defense.

For the reasons set forth in the preamble, and in accordance with its authority under 50 U.S.C. app. 2061 et seq., the Board of Governors of the Federal Reserve is amending Title 12 of the Code of Federal Regulations, Chapter II as follows:

PART 245—[REMOVED]

1. Part 245 is removed.

By order of the Board of Governors of the Federal Reserve System, October 3, 1996.

William W. Wiles,

Secretary of the Board.

[FR Doc. 96-25867 Filed 10-8-96; 8:45 am]

BILLING CODE 6210-01-P