

**FEDERAL RESERVE BANK
OF NEW YORK**

Fiscal Agent of the United States

[Circular No. 2996]
September 7, 1945]

REGULATION V
Guaranteed Loan Program After August 14, 1945

*To All Banks, Other Financing Institutions and Others Concerned
in the Second Federal Reserve District:*

The following is the pertinent text of a communication dated August 17, 1945 from Commander Donald P. Welles, Chief of Finance Division of the Navy Department, addressed to the Board of Governors of the Federal Reserve System relative to the guaranteed loan program pursuant to Regulation V after August 14, 1945:

"1. The announcement of the Japanese agreement to surrender makes it appropriate for the Services to modify the guaranteed loan program, and accordingly the following instructions are issued by the War Department, the Navy Department and the Maritime Commission in connection with future administration of guaranteed loans by the Federal Reserve Banks.

V AND VT LOANS

2. *Outstanding V and VT Loans.* The rights and obligations of the guarantor (including the Federal Reserve Bank as its agent), the financing institution and the borrower under existing loans and guarantees, as defined in the documents relating thereto, will not be affected by the surrender of Japan. In cases where outstanding loans require the consent of the Reserve Bank or the Guarantor for the financing of production under additional war contracts, such consent should not be given without submission of the matter to Washington.

3. *Outstanding Authorizations.* V-Loan authorizations which were outstanding on August 14, 1945 may be executed in accordance with their terms, but the authority previously given to the Reserve Banks to extend such outstanding authorizations for a period of thirty days is hereby revoked. Requests for the extension of such authorizations should be referred to the Guarantor, and its decision will be made in the light of the circumstances involved in each case.

4. *Pending Applications.* Applications for V-Loans which have been filed with the Reserve Banks and which were pending with the Reserve Banks or the Services on August 14, 1945 will, unless withdrawn by the financing institution, be processed in the usual way. In such cases, the guarantee will be confined to a loan with a borrowing formula limited to items under terminated war contracts, and borrowings under untermi-nated contracts will be permitted only if the circumstances stipulated in paragraph (7) below exist.

5. *Extensions of Maturity.* The Reserve Banks are authorized to consent to requests for the extension of maturity of any V or VT Loans under the 1942 or 1943 form of Guarantee Agreement maturing hereafter (whether it be an original maturity or a maturity resulting from an extension hitherto granted) when in the opinion of the Reserve Bank (concurred in by the Liaison Officer in the case of War Department guarantees) such extension is necessary for orderly liquidation of the loan, subject to the following condi-

(OVER)

tions: (A) No such extension may exceed sixty days; (B) The borrower shall relinquish its rights under Section 6, except as to contracts terminated prior to the beginning of the period of the extension; and (C) The financing institution shall relinquish its rights under Section 5, except as to contracts terminated prior to the beginning of the period of the extension. Pursuant to such relinquishment, contracts terminated during any such period of extension should be excluded from (a) or (x), as the case may be, and included in (b) or (y), as the case may be. Loans under the 1944 V-Loan Guarantee Agreement may be extended by the financing institution under the terms of Section 7 thereof. Additional extensions or an extension exceeding sixty days may be given only with the consent of the guarantor after submission to Washington. Previous instructions which are inconsistent with the instructions set forth in this paragraph are hereby revoked.

6. *Authority for New V-Loans.* The surrender of Japan has not resulted in termination of the war within the meaning of the first War Powers Act, 1941, under which Executive Order 9112 was issued. Accordingly, the War and Navy Departments and the Maritime Commission are still empowered to enter into contracts with financing institutions guaranteeing them against loss of principal or interest on loans, discounts or advances, or on commitments in connection therewith, which may be made for the purpose of financing any contractor, subcontractor or others engaged in any business or operation which is deemed by the War Department, the Navy Department or the Maritime Commission to be necessary, appropriate or convenient for the prosecution of the war.

7. *Policy as to New V-Loans.* However, it will be the policy of the Services to enter into guarantees of new V-Loans (as distinguished from extending guarantees of outstanding loans or issuing guarantees of refinancing arrangements made in order to bring about orderly liquidation of outstanding guaranteed loans) only in exceptional cases and where there is a clear necessity for the procurement of supplies or services by the War Department, Navy Department or Maritime Commission from the particular borrower, and where no other means of adequate financing is available to the borrower. In such cases the financing institution will be expected to take an exposure clearly commensurate with the risk involved, and the maturity will be limited strictly in accordance with the requirements of the particular contracts to be financed. Appropriate provision for borrowing against terminated contracts may be included in such loans.

T-LOANS

8. There will be no present change in the operation of the T-Loan program. However, the special provision with respect to receivables on unterminated subcontracts under terminated prime contracts, which was authorized by the Navy Department memorandum of April 24, 1945 . . . to be inserted in Exhibit D of the Termination Loan Agreement, may not be inserted in T-Loan Agreements executed hereafter, unless the prospective borrower still holds war contracts which have not been fully terminated. If any case arises where the omission of this special provision will, in the opinion of the Reserve Bank, work an undue hardship upon the borrower, it is requested that such case be referred to the guarantor for its consideration.

9. I am authorized to state that the War Department and the Maritime Commission concur in the above . . ."

Additional copies of this circular may be obtained on request.

ALLAN SPROUL,
President.