

**FEDERAL RESERVE BANK
OF NEW YORK**

Fiscal Agent of the United States

[Circular No. 3594]
[September 26, 1950]

REGULATION V

LOAN GUARANTEES FOR DEFENSE PRODUCTION

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

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System and released for publication on September 27, 1950:

In order to facilitate the defense effort, a program of guaranteed loans patterned after the so-called V-Loan program of World War II has been inaugurated under authority of the Defense Production Act of 1950 and the President's Executive Order No. 10161 of September 9, 1950.

The guaranteeing agencies of the Government named in the Executive Order are 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, and the General Services Administration. The program, adopted after consultations among the various guaranteeing agencies and the Board of Governors of the Federal Reserve System, will again be administered through the agency of the Federal Reserve Banks.

Under the Defense Production Act, each of the guaranteeing agencies is authorized to guarantee loans made by banks and other lending institutions to individuals and private corporations for the purpose of financing contracts and other operations which the guaranteeing agency considers necessary for the procurement of materials and the performance of services for the national defense. In the administration of this program, special attention will be given to the financing requirements of small business enterprises engaged in operations relating to the defense effort.

The twelve Federal Reserve Banks are designated in the Executive Order as fiscal agents of the United States to act on behalf of the guaranteeing agencies in the making of guarantees; and the Executive Order authorizes the Board of Governors, after consultation with the guaranteeing agencies, to prescribe regulations governing the operations of the Federal Reserve Banks as such agents, rates and fees to be charged with respect to guaranteed loans, and the forms and procedures to be utilized in connection with the making of such guarantees.

In connection with the establishment of the new program, the Board of Governors, after consulting the guaranteeing agencies, has revised its Regulation V, effective September 27, 1950, to govern the general operation of the program. A standard form of guarantee agreement has been prescribed. Except for a few minor changes it is identical with the form of the 1944 V-Loan Guarantee Agreement which was in use at the close of World War II. Likewise, the procedures for the handling of guarantees will follow generally and to the extent applicable those which were in effect when the wartime V-Loan program terminated in 1945.

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The following schedule of guarantee fees has been established:

<i>Per cent of loan guaranteed</i>	<i>Guarantee fee (per cent of interest payable by borrower on guaranteed portion of loan)</i>
70 or less	10
75	15
80	20
85	25
90	30
95	35
over 95	40-50

The maximum rate of interest which may be charged with respect to a guaranteed loan has been set at 5 per cent.

These actions make it possible for the several guaranteeing agencies immediately to provide such guarantees as may be necessary to facilitate the financing of defense contracts. The form of guarantee agreement, the schedule of rates and fees, and the various procedures are subject to change from time to time as experience under the renewed program may make desirable.

In the formulation of policies and procedures there will be frequent consultations between the guaranteeing agencies and the Board of Governors for the purpose of achieving uniformity and coordination to the greatest extent practicable. The program for assisting in the financing of defense contractors—especially the smaller manufacturers and business concerns—is expected to play an important part in carrying out the purposes of the Defense Production Act of 1950.

In any case in which there is need for a guaranteed loan to finance a contractor or subcontractor engaged in operations relating to defense production, the contractor should contact his local bank or other financing institution. If the financing institution is in agreement, it should in turn contact the Federal Reserve Bank or Branch of its district and file with the Reserve Bank or Branch an application for a guarantee of the loan by the appropriate guaranteeing agency. Financing institutions should direct all inquiries with respect to the program to the Federal Reserve Bank or Branch of the appropriate Federal Reserve District.

We shall furnish you with copies of the revised Regulation V as soon as they are available. We shall also furnish you, as soon as possible, further information concerning procedure under the Regulation.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,
President.