

**FEDERAL RESERVE BANK
OF NEW YORK**

Fiscal Agent of the United States

{ Circular No. 3712
May 29, 1951 }

REGULATION V

LOAN GUARANTEES FOR DEFENSE PRODUCTION

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

V-loan financing for increased production of machine tools

The General Services Administration has entered into agreements, generally referred to as "machine tool pool orders," with a number of manufacturers of machine tools. Under these contracts, the General Services Administration places orders with each manufacturer for specific numbers of certain tools at fixed prices. The manufacturer undertakes to dispose of the tools to defense contractors, prior to completion if possible, and the Government agrees to take and pay for any tools not so disposed of at a price equivalent to the manufacturer's sales price, less 17½ per cent, representing estimated profit and selling expense.

The General Services Administration is prepared to guarantee, under Regulation V, loans for working capital required to finance these contracts, and requests that prompt assistance be given to manufacturers requiring V-loan financing for the performance of the contracts. The loans will follow the general pattern of V-loans made to subcontractors under defense orders and applications should be made by the financing institutions on form Cr. 184, copies of which will be furnished upon request to this Bank or its Buffalo Branch.

Amendment to Assignment of Claims Act of 1940

On May 15, 1951, the President approved an Act "To facilitate the financing of defense contracts by banks and other financing institutions, to amend the Assignment of Claims Act of 1940, and for other purposes." Heretofore, because of certain rulings of the Comptroller General of the United States, financing institutions have been reluctant to make loans secured by assignments of Government contracts either with or without guarantees of such loans under the current V-loan program; consequently, many contractors have been unable to obtain the necessary financing for the performance of their defense contracts. This legislation clarifies the rights of financing institutions taking assignments of Government contracts as security for loans to defense contractors. The text of the amendment is printed on the back of this circular.

The principal changes in existing law made by this amendment are the following:

1. It removes the requirement that copies of assignments be filed with the General Accounting Office.
2. It relieves assignee financing institutions of any liability to repay amounts received by them after July 1, 1950 under any assignment.
3. Authority for inclusion of the "no set-off" clause is extended to the Department of Defense, the General Services Administration, Atomic Energy Commission, and such other departments or agencies as the President may designate.
4. Where the no set-off clause is included in a contract, the assignee financing institution is protected, not only against set-off on account of claims arising "independently of the contract," but also against set-off of any claims of the Government against the assignor on account of renegotiation, fines, penalties, or taxes or Social Security contributions, whether or not such claims arise from or independently of the assigned contract.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,
President.

(OVER)

FEDERAL RESERVE BANK
OF NEW YORK

Public Law 30 — 82d Congress
Chapter 75 — 1st Session
S. 998

AN ACT

To facilitate the financing of the defense contracts by banks and other financing institutions, to amend the Assignment of Claims Act of 1940, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1 of the Assignment of Claims Act of 1940, approved October 9, 1940 (54 Stat. 1029), is amended by striking out all after clause 3 of the proviso and inserting in lieu thereof the following:

“4. That in the event of any such assignment, the assignee thereof shall file written notice of the assignment together with a true copy of the instrument of assignment with (a) the contracting officer or the head of his department or agency; (b) the surety or sureties upon the bond or bonds, if any, in connection with such contract; and (c) the disbursing officer, if any, designated in such contract to make payment.

“Notwithstanding any law to the contrary governing the validity of assignments, any assignment pursuant to the Assignment of Claims Act of 1940, as amended, shall constitute a valid assignment for all purposes.

“In any case in which moneys due or to become due under any contract are or have been assigned pursuant to this section, no liability of any nature of the assignor to the United States or any department or agency thereof, whether arising from or independently of such contract, shall create or impose any liability on the part of the assignee to make restitution, refund, or repayment to the United States of any amount heretofore since July 1, 1950, or hereafter received under the assignment.

“Any contract of the Department of Defense, the General Services Administration, the Atomic Energy Commission, or any other department or agency of the United States designated by the President, except any such contract under which full payment has been made, may, in time of war or national emergency proclaimed by the President (including the national emergency proclaimed December 16, 1950) or by Act or joint resolution of the Congress and until such war or national emergency has been terminated in such manner, provide or be amended without consideration to provide that payments to be made to the assignee of any moneys due or to become due under such contract shall not be subject to reduction or set-off, and if such provision or one to the same general effect has been at any time heretofore or is hereafter included or inserted in any such contract, payments to be made thereafter to an assignee of any moneys due or to become due under such contract, whether during or after such war or emergency, shall not be subject to reduction or set-off for any liability of any nature of the assignor to the United States or any department or agency thereof which arises independently of such contract, or hereafter for any liability of the assignor on account of (1) renegotiation under any renegotiation statute or under any statutory renegotiation article in the contract, (2) fines, (3) penalties (which term does not include amounts which may be collected or withheld from the assignor in accordance with or for failure to comply with the terms of the contract), or (4) taxes, social security contributions, or the withholding or nonwithholding of taxes or social security contributions, whether arising from or independently of such contract.

“Except as herein otherwise provided, nothing in this Act, as amended, shall be deemed to affect or impair rights or obligations heretofore accrued.”

Approved May 15, 1951.