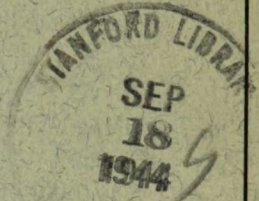


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RECONSTRUCTION
FINANCE CORPORATION

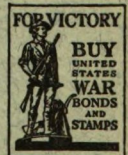
UNITED STATES

Dept of Commerce

Bank Participation Plan

War Production, Contract
Termination, Reconversion
and other Business Loans

754



May 15, 1944

FOREWORD

Herewith are questions and answers which outline succinctly our method of procedure with reference to contract termination, reconversion and business loans.

We are entering a very important economic period in the life of this nation. Our National and State banks under our participation arrangement have helped the nation at war with mutual benefits.

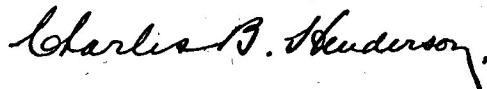
To meet the impact of the war and to give greater latitude in making loans our thirty-one Loan Agencies were authorized to make loans up to \$100,000 without reference to Washington and where a bank participates in a loan to the extent of 25% of new funds, to make loans up to \$250,000 on the same basis.

Recently we advised you concerning the importance of assisting returning veterans. The problem of reemployment and rehabilitation in industries of those who have fought so valiantly for our country is of paramount importance. Together we can assist many of these men and women and thereby show the nation's appreciation of the sacrifices they have made.

This Corporation is not in competition with private banks or other lending institutions. We have from the beginning preserved the right of our State and National banks to make these loans in the first instance. We have participated with them and together have made thousands of loans which otherwise would not have been consummated. The transition period will require continued cooperation if we are to accept the responsibilities imposed on us.

Let us, therefore, continue on the same mutually cooperative basis so that industry, both large and small, may have the assistance we are prepared to give.

For that cooperation you have our appreciation.



*Chairman of the Board
Reconstruction Finance Corporation*

FACILITIES AVAILABLE TO BANKS

1. Q. *Is there any advantage to National and State banks in participating with the RFC?*

A. Yes. That portion of the loan which is covered by the guaranty of RFC is not, in National banks and in most State banks, subject to the legal loan limit of the bank. The effect is to permit banks through this arrangement to increase their earnings without increasing their risks beyond the amount of the participation. This arrangement which has helped thousands of banks in the nation has assisted in increasing the earnings of banks through both immediate and deferred participation with this Corporation in making loans to industries. Upon ten days notice the bank may ask RFC to take up RFC's participation when made on a deferred basis, or alternatively on five days notice to advise RFC that it has decided to purchase RFC's interest in the loan.

2. Q. *What is the basis of the RFC charge for a commitment for deferred participation?*

A. The schedule below indicates the usual basis of the charge for such a commitment.

<i>Bank's Portion of Loan</i>	<i>Portion of Loan Covered by Deferred Participation Agreement</i>	<i>On Portion of Loan Covered by Deferred Participation Agreement</i>		
		<i>Interest Rate</i>	<i>Participation Charge</i>	<i>Net Return to Bank</i>
10% to 24%	76% to 90%	4%	1%	3%
25% up to and including 49%	51% to 75%	4%	¾%	3¼%
50% or over	50% or less	4%	½%	3½%

Interest rate on bank's portion of loan may be up to 6%.

3. Q. *Has the RFC method for loans in participation with banks been changed during the war period?*

A. Yes. Our methods have been streamlined and forms simplified, resulting in quicker and more effective analysis of applications and disbursement of loans.

4. Q. *What is the usual interest rate on the RFC portion of an immediate or deferred participation?*

A. The interest rate usually charged on the RFC portion of both immediate and deferred participation loans is 4% per annum. Some banks are charging less than 4% on RFC deferred portion.

5. Q. *May more than one bank participate in a war production or other business loan?*

A. Yes. The participation agreement, however, is executed with one bank and that bank in turn may sell a share of its agreed participation in the loan to other banks.

6. Q. *What documents are required by the RFC in connection with the closing and disbursement of loans?*

A. Of necessity the documents required will vary depending upon the type and nature of the loan. On loans to be made and serviced by the RFC, RFC counsel prepares the necessary closing documents, such as the note, mortgage instruments, and assignment of contracts. On loans to be made and serviced by the bank, all such documents may be prepared by the bank's counsel. If requested, the RFC will prepare such documents if it appears that such course would save time and expense.

7. Q. *Will the RFC make available its report of findings of fact for the benefit of the participating bank?*

A. Yes. All such findings are discussed with the participating bank so that it may have the full benefit of the views of RFC in connection with any loan under consideration.

8. Q. *Is there reason for the appointment of liaison officers between the bank and RFC?*

A. Yes. The RFC lending program is greatly facilitated whenever a bank designates one of its senior officers to act in a liaison capacity between the bank and RFC. If a bank does not have a liaison officer, it is requested that one of its officers be so designated.

9. Q. *Are Examiners available for conference in the field with the liaison officer appointed by the bank?*

A. Yes.

10. Q. *What are the essential advantages to banks of RFC participation?*

A. Income is preserved to the bank. RFC Engineers and Examiners are made available to assist in setting up the loan. The bank may service the loan if it elects to do so. The bank retains contact with the applicant. The bank may at any time take over the whole loan and thereby increase its earnings.

11. Q. *Does the RFC reserve the right to approve attorneys' fees in connection with its loans?*

A. Yes, in conjunction with any participating bank and the applicant.

12. Q. *Does the RFC appoint special counsel whose fees are paid by the borrower when a war production or other business loan is made?*

A. No, except in special cases.

13. Q. *Is there any expense to the applicant for an appraisal made by an RFC appraiser or examiner?*

A. No, the entire expense is borne by the RFC.

14. Q. *What method is adopted in liquidation of a loan made in participation with a bank?*

A. RFC avoids recourse to foreclosure as long as possible. In each instance, foreclosure is instituted only after the bank has indicated it is desirable. The expenses are prorated.

15. Q. *May the bank which is servicing the loan call upon the RFC to assist it as difficult problems arise?*

A. Yes. We are always anxious to assist banks in servicing loans where we have a participation with the bank. Most banks welcome this kind of cooperation.

16. Q. *What is the period of time required for consideration and disbursement of a war production or other business loan?*

A. Some applications have been considered, approved and disbursed on the day of their submission. Complicated loans require more time. Normally, if an application is presented in proper and complete form, it can be handled as quickly as by a local bank. Under existing authority, Agency Managers can make loans up to \$100,000 without reference to Washington, where there is no bank participation. They have authority to make loans up to \$250,000, without reference to Washington where the bank participates to the extent of 25% of new funds.

17. Q. *Does the RFC require monthly statements with reference to all war production or other business loans made?*

A. The right to require monthly statements if deemed necessary is reserved. Usually, quarterly reports are sufficient.

18. Q. *After an applicant has applied to a bank for financial assistance and the bank is unwilling to make the loan or participate therein with the RFC, how can the applicant be helped?*

A. The bank should refer the applicant to the RFC and then perhaps the RFC can solve the problem and keep the applicant in operation.

19. Q. *What type of men compose an RFC Agency Advisory Committee that passes upon loan applications?*

A. The Committee is composed of outstanding industrialists, bankers and other business executives representative of the area served by the local Loan Agency.

IMPORTANT INFORMATION CONCERNING CONTRACT TERMINATION, RECONVERSION AND BUSINESS LOANS

20. Q. *Will the RFC make loans against claims filed in connection with contracts or subcontracts which have been terminated, pending their determination and settlement?*

A. Yes.

21. Q. *Will the RFC consider Government Receivables on contracts that have been cancelled as collateral for the loan?*

A. Yes.

22. Q. *Will the RFC take as collateral for loans claims that may be pending against the Army, Navy or Maritime Commission?*

A. Yes. The assignment of the rights of the applicant to the amount claimed will be considered by our Loan Agencies as collateral for the loan requested. It is believed that this intermediate financing will be of material assistance to the small industrialist who is not able to obtain this advance from his local banker.

23. Q. *What percentage of the claim will the RFC advance?*

A. Of necessity, the amount will vary depending upon the type and nature of the claim. A fair basis of allowance will be made depending upon all the factors.

24. Q. *Will an assignment of the rights of the contractor in the claim be required in the event a loan is made by the RFC?*

A. Yes. If part of our advance is based upon the claim, we will require an assignment of the claim as collateral against the advance. It may well develop in many cases that the assignment will not be necessary because of additional collateral that is available for the loan requested. The circumstances of each case will govern.

25. Q. *Is it anticipated that there will be delay in passing upon loan applications based upon an assignment of claim?*

A. Delay will be avoided where possible. Precise information will be requested from the applicant with a view to approving his application based upon the assignment of claim. We will bend every effort to handle this type of application as expeditiously as possible.

26. Q. *What maturity will be provided for such loans?*

A. The maturity will be determined according to the best estimate of the time required to negotiate and pay the claim. If this proves insufficient an extension may be arranged.

27. Q. *Will the RFC make loans to meet the cost of converting a plant from war-time production to post-war activities?*

A. Yes.

28. Q. *Will the RFC make loans in order to retool a plant for the manufacture of either a new article or an article previously manufactured by the company prior to the war?*

A. Yes. It is recognized that many small industrialists must retool and possibly acquire competitive machinery and equipment if they are to survive in the post-war period. This will be a very necessary expense and, accordingly, the application should include funds for that item.

29. Q. *Will the RFC make loans to provide working capital for the production of essential civilian or consumer goods?*

A. Yes.

30. Q. *Is it contemplated that the RFC will make working capital loans if the whole plan of the company requires reorganization as to sales and products?*

A. Yes. The applicant should present full data concerning reorganization plan, the article he proposes to manufacture, the collateral he has available, etc. If the program is sound, a commitment can be made intended to insure the industrialist of the necessary financing.

31. Q. *Will the RFC require a marketing survey prior to the time the application is filed?*

A. The marketing survey concerning the potential sale of the article to be manufactured will be very helpful, but not absolutely necessary. These surveys in many instances may be obtained through the Department of Commerce.

32. Q. *Assuming that the industry was not profitably operated during the years 1938-39-40 and now desires financing in the post-war period, will the application be entertained?*

A. Yes. RFC Examiners will, of course, ask for evidence tending to show that the conditions which prevented profitable operation in the years mentioned, can be overcome. It is our desire to encourage and preserve industry wherever possible.

33. Q. *Should the application show specifically how much working capital is required?*

A. It is important that the Loan Agency entertaining the application know the use to which the working capital is to be put. It is preferable to have a projected budget based on quarterly periods presented; more particularly, if the company is to make a new product.

34. Q. *Is this program contemplated to assist the small enterprises only?*

A. No. Enterprises both large and small will have the right to file applications and expect sympathetic consideration in view of all the circumstances affecting the industry, and, through the enterprise, the economy of the community.

35. Q. *Is the problem of employment important in connection with the granting of these loans?*

A. It is the intention of the RFC under the existing statute to give continued or increased employment of labor and where the applicant can show that the working capital will absorb in industry men or women who otherwise might not be employed because of economic conditions in the area, this factor will have important consideration by the RFC.

36. Q. *Would a survey by the industry in small towns showing the employment factors involved and the number and nature of industries in the town, be helpful?*

A. Yes. This is the kind of information we will require to show the importance of retaining industry in the town affected. In many areas the whole community is dependent upon one or more industries, and if these are not retained, the economic life of the community will be seriously impaired.

37. Q. *Will the manufacturer's present inventory, if usable in the article to be manufactured, be considered in an analysis of his position?*

A. Yes. The current inventory that can be used in the manufacture of a new article will be credited in the position of the applicant, assuming that the loan can be favorably acted upon. Obsolescent inventory should be eliminated from the balance sheet in order to have a true picture.

38. Q. *Suppose the small enterprise proposes to enter an entirely new field of activity and is willing to furnish reasonable equity money on some satisfactory basis, will the RFC entertain such an application?*

A. Yes. Those concerns that have had a successful period of operation during the years 1938-39-40 will obviously be good risks although the article to be manufactured is new in their field of operation.

39. Q. *Has Defense Plant Corporation machinery and equipment which will be available for sale to industry?*

A. It is expected that a great deal of all types of machinery and equipment will be offered for sale to industry.

40. Q. *Will it be possible for a small enterprise to purchase machinery and equipment owned by the Government out of the proceeds of the loan made by the RFC?*

A. Yes. It is expected that many small enterprises now will be assisted by the acquisition of Government owned machinery and equipment through these funds.

41. Q. *How can businessmen know what specific items of machinery or equipment Defense Plant Corporation has available?*

A. Lists of surplus Government owned machinery and equipment will be available in RFC Loan Agencies.

42. Q. *Is it possible for a manufacturer who has a Defense Plant contract to arrange with the Reconstruction Finance Corporation for a loan to pay the balance that may be due under the terms of the contract to acquire this machinery and equipment?*

A. Yes. Applications will be entertained for that purpose.

43. Q. *Will the RFC make the types of loans discussed herein in participation with the banks on the same participation fee basis as now exists?*

A. Yes.

44. Q. *Will the RFC require the individual to contact his bank in the first instance, as is now the custom, prior to presenting his application to the Loan Agency concerned?*

A. Yes. It is the desire of the RFC to preserve our private enterprise system and, if the bank will make the loan in the first instance without participation with the RFC, we prefer to have the bank do so. The RFC is not a competitor of any bank or other financial institution.

45. Q. *Is it necessary to advise the RFC the name of the banker with whom the business has had contact and who is familiar with their methods of financing?*

A. Yes. The banker will, of course, be contacted by the RFC to ascertain if he will participate in the loan or whether he is willing to make the whole loan. An exchange of ideas concerning the financing of the company will be most helpful.

46. Q. *For what term of years will the RFC make these loans and at what interest rate?*

A. The loans will be made on reasonable term basis and the interest charged will be 4%.

47. Q. *Is it anticipated that the amortization schedule be set up on a monthly basis in most instances?*

A. Yes. We believe that the majority of the borrowers would prefer to make repayments of principal and interest monthly as well as provision for payment of taxes. This method has proved beneficial in the past.

48. Q. *Will payments be required immediately after disbursement or will some period of time be allowed for retooling, market surveys, reorganization, etc.?*

A. These factors will be considered by the Loan Agency at the time the application is presented. Obviously, many business enterprises will require time for the above-mentioned accomplishments before they can begin to amortize their loan.

49. Q. *If a loan to provide working capital or to finance the purchase of new machinery or equipment is not required immediately, will the RFC make a commitment to disburse such a loan at some future date?*

A. Yes.

50. Q. *Will a commitment be made by the RFC even if the plant is shut down during the retooling process?*

A. Yes. This type of loan will be made after taking into consideration all of the factors presented.

51. Q. *Assuming that it will take six months to retool, reorganize, obtain necessary equipment and venture capital where deemed necessary, will the RFC make a commitment for a loan to be disbursed six months hence?*

A. Yes. If our requirements are met, the period of time after the commitment is not important provided the proposal is sound. Many industries may require that period of time before they can assume normal peacetime operations.

52. Q. *What type of application form will be used for these future commitments for post-war industrial activity?*

A. The present preliminary application form will be used with possibly supplemental information. Most of the information will be developed in the interview with the Examiner.

53. Q. *How will the terms of a future commitment be determined?*

A. Details will be worked out between the RFC, the applicant, and the banker. All the circumstances of each case will be considered at the time the application is filed. The opinion of the banker and the borrower will have an immediate bearing upon the commitment fee the RFC believes should be charged.

54. Q. *What will be the rate of the commitment fee?*

A. No fixed rate will be determined as a matter of policy by the RFC. Each case will be considered separately and in the light of all the economic conditions prevailing at the time.

55. Q. *What advantage does the business enterprise gain by obtaining a future commitment?*

A. The commitment is in effect insurance to the manufacturer that if he meets certain conditions the necessary funds will be available when required. He can, therefore, make plans for the future with confidence.

May 15, 1944

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