

U.S. RECONSTRUCTION FINANCE CORPORATION  
AND SUBSIDIARY

**Annual Report  
and  
Financial Statements**

*June 30, 1950*



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**RECONSTRUCTION FINANCE CORPORATION**

**811 Vermont Avenue**

**Washington 25, D. C.**

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**SUBSIDIARY AT JUNE 30, 1950**

**Federal National Mortgage Association**

*Directors and Officers as of December 4, 1950*

# RECONSTRUCTION FINANCE CORPORATION

## LOAN AGENCIES

AGENCY	MANAGER	ADDRESS
Atlanta, Ga.	M. E. Everett	Healey Building 57 Forsyth Street
Birmingham, Ala.	Fred H. Foy	Corner Building 2nd Avenue and 21st St.
Boston, Mass.	Mathew J. McGrath	10 Post Office Square
Charlotte, N. C.	James K. Wilson	317 South Tryon St.
Chicago, Ill.	Milnor O. Hoel	208 S. LaSalle St.
Cleveland, Ohio	J. A. Fraser	Federal Reserve Bank Bldg. E. 6th St. & Superior Ave.
Dallas, Texas	L. B. Glidden	Rio Grande National Bldg. 251 North Field St.
Denver, Colorado	Ross L. Hudson	Railway Exchange Bldg. 17th and Champa Sts.
Detroit, Mich.	Henry F. Eckfeld	Griswold Building 1214 Griswold Street
Helena, Mont.	Leon E. Choquette	Power Block Main St. and 6th Ave. P. O. Box 177
Houston, Texas	Charles L. South	City National Bank Bldg. Fannin St. & McKinney Ave.
Jacksonville, Fla.	Fred H. Farwell	Graham Building 24 Laura Street
Kansas City, Mo.	David H. Powell	Federal Reserve Bank Bldg. 10th St. and Grand Ave.
Little Rock, Ark.	John J. Truemper	Pyramid Building Second & Center Sts.
Los Angeles, Calif.	Hector C. Haight	417 South Hill St.
Louisville, Ky.	J. Fort Abell	139 South 4th St.
Minneapolis, Minn.	Arthur W. Carlson	Minnesota Federal Savings and Loan Bldg. 607 Marquette Ave.
Nashville, Tenn.	R. Lee Davis (Acting)	Nashville Trust Bldg. 315 Union Street
New Orleans, La.	George W. Robertson	348 Baronne Street
New York, N. Y.	Percy C. Gale	44 Pine Street
Oklahoma City, Okla.	Carl B. Sebring	Commerce Exchange Bldg. 130 Northwest Grand Ave.
Omaha, Nebr.	China R. Clarke	Woodmen of the World Bldg. 14th and Farnum Streets
Philadelphia, Pa.	Bernard J. Kelley	Lincoln-Liberty Building Broad and Chestnut Sts.
Portland, Ore.	William Kennedy	Pittock Block 921 S. W. Washington St.
Richmond, Va.	W. B. Cloe	Southern States Bldg. 627 E. Main Street
St. Louis, Mo.	Charles G. Alexander	407 N. 8th St. Bldg.
Salt Lake City, Utah	Gerald L. Leaver	Dooly Building 109 W. Second, South
San Antonio, Texas	Francis M. Conlon	Transit Tower 310 S. St. Mary's St.
San Francisco, Calif.	John S. McCullough, Jr.	130 Sutter Street
Seattle, Wash.	Charles R. Johnson	Central Building 810 Third Avenue
Spokane, Wash.	O. M. Green	Columbia Building First and Howard Sts.

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# RECONSTRUCTION FINANCE CORPORATION

## WASHINGTON

*To The President,  
The President of the Senate, and  
The Speaker of the House of Representatives*

Pursuant to the provisions of the Reconstruction Finance Corporation Act, as amended, there is transmitted herewith the report of the Reconstruction Finance Corporation for the fiscal year ended June 30, 1950. As a part of the report there are included the following sections, the first four of which are required pursuant to legislation covering the specific operations:

1. The report of operations relating to synthetic rubber.
2. The report relating to tin.
3. The report relating to abaca.
4. The report of Federal National Mortgage Association.
5. A report on the liquidation of assets acquired under National Defense and wartime programs; the authority for such programs terminated on June 30, 1947.

The schedule of individual loans and investments of \$100,000 or more, required under the provisions of the Reconstruction Finance Corporation Act, as amended, is the subject of a separate report.

During the years since its creation by the Congress in January 1932, the Corporation has been called upon to perform a variety of functions relating to economic, national and international conditions of an emergency nature. In the fiscal year 1950, the eighteenth consecutive year of operations, the services of the Corporation were called upon in two major respects. These were (1) an extraordinary demand for long-term loans by business enterprises, and (2) an unprecedented demand upon the facilities of Federal National Mortgage Association in the maintenance of the secondary market for home mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration. In each of these fields, the trend established in the fiscal year 1949 continued upward; in each, the Corporation has endeavored to comply with the stated wishes of the Congress in extending its services as needed "to aid in financing agriculture, commerce and industry, to encourage small business, to help in maintaining the economic stability of the country, and to assist in promoting maximum employment and production" (Section 4 (a), RFC Act, as amended).

Applications were received from 13,086 business enterprises during the fiscal year 1950, as compared with 8,156 during the fiscal year 1949. Commitments for loans in the gross amount of \$593.6 million, including \$70.9 million of participation by banks, were authorized to 5,506 of those applicants seeking assistance. This compares with 3,509 commitments in the gross amount of \$388,500,000 in the prior year. Commitments by Federal National Mortgage Association to purchase home mortgages aggregated \$1.784 billion during the fiscal year 1950, as compared with \$703,490,000 in the prior year. However, the making of such commitments was terminated on March 20, 1950, at which time funds allocated by the Congress had been fully committed; subsequently, purchases on a greatly reduced scale were resumed in accordance with amendments to the National Housing Act. A major development in the maintenance of the secondary market was the increasing interest shown during the year by investors in the Association's portfolio of insured and guaranteed mortgages. While such portfolio had always been available to private investors, an intensified selling program was undertaken by the Corporation in the latter part of 1949, which resulted in sales of approximately \$311,000,000 through June 30, 1950, at premiums.

During the year, in accordance with the Reorganization Act of 1949, the President submitted to the Congress Reorganization Plans Nos. 22 and 23, which proposed transfer to the Housing and Home Finance Agency of Federal National Mortgage Association and all functions with respect to loans involving the manufacture, sale or distribution of pre-fabricated housing. These transfers became effective on September 7, 1950.

Combined net earnings of the Corporation in its lending activities for the fiscal year 1950 were \$27,247,193, after provision for estimated losses of \$8,523,775. Of the total, \$17,462,540 was earned by

FNMA, and \$9,784,653 by the Corporation in its regular lending activities. Of the latter amount, \$6,280,000 represents a profit from the liquidation of property acquired through foreclosure of a major loan made in prior years. Operations under the synthetic rubber, tin and fiber programs resulted in net losses of \$1,794,621, \$10,916,369 and \$484,509, respectively, after charges for depreciation and for interest on the investment of the U. S. Government. Such losses are discussed in the special sections of the accompanying report relating to those programs.

While the enclosed report relates to activities of the Corporation during the fiscal year ended June 30, 1950, the Corporation has, since that date, taken certain steps which are being reported at this time for the information of the President and the Congress. The more important of these are: (1) Pursuant to the direction of the President, all field offices were instructed on July 31, 1950, that priority would be given to loans which contribute to the national defense and that no loans would be made which would result in diverting substantial quantities of strategic materials and supplies for non-defense purposes. Because of this change in policy, together with changes in the economic and credit conditions throughout the country, there has been a substantial reduction in the number of loans being made currently. In the first quarter of the current fiscal year commitments for loans to business enterprises were made to only 949 applicants, as compared to 1,274 commitments during the same period a year ago. This decline has, however, been more moderate in connection with small loans; in the first quarter of the current year loans of less than \$100,000 were made to 889 borrowers, while in the comparable quarter a year ago loans of less than \$100,000 were made to 1,094 borrowers. (2) Effective November 10, 1950, the Corporation increased its interest rates on loans to business enterprises to 5 percent and increased participation fees charged banks in connection with deferred participation loans to 2 percent. Simultaneously, the practice was initiated of charging fees in connection with applications from business enterprises and of charging commitment fees in connection with loans which have not been disbursed after a specified period. (3) Plans are under consideration for substantial reductions in administrative expenses through consolidation of functions and other steps which will also permit more efficient handling of applications for loans.

While the Corporation has not finally established a system for determining accurate costs of each of its programs, nor of the service rendered to applicants and borrowers from which no revenue accrues to the Corporation, studies have been conducted, and are continuing, which indicate that the actions already taken, described under (2) and (3) above, will, with the present volume of loans, permit operation of each program without loss. The Directors of the Corporation plan to make further adjustments which will be designed to enable the Corporation to operate each phase of its lending activities on a completely self-sustaining basis and, at the same time, render the service contemplated by the Congress.

Respectfully submitted,



Chairman

December 4, 1950



## ANNUAL REPORT—FISCAL YEAR 1950

The primary purposes of the Reconstruction Finance Corporation, as expressed in Section 4 of Public Law 548, Eightieth Congress, approved May 25, 1948, are:

“. . . to aid in financing agriculture, commerce, and industry, to encourage small business, to help in maintaining the stability of the country, and to assist in promoting maximum employment and production.”

A detailed statement of the authorities granted the Corporation is set forth in Appendix E of this report. The basic policies guiding the Corporation's lending activities are also contained in the law, and these are described in a following section under "Lending Policies."

In addition to the lending activities, which now relate principally to business loans, the Corporation is engaged in the manufacture and sale of synthetic rubber and in the operation of the Government-owned tin smelter at Texas City, Texas. During the last session of the Eighty-first Congress, legislation was enacted which authorized the continuation of the synthetic rubber program to June 30, 1952, and of the tin smelter operations to June 30, 1956. Legislation was also enacted during the last session of Congress which authorizes the Corporation to continue and expand the operations of the Central American abaca plantations.

The Corporation is also continuing to liquidate programs remaining from the national defense, war, and reconversion activities of 1940-1947. The major aspects of this liquidation are nearing completion.

An important activity under the direction of the Corporation during the fiscal year 1950 was the maintenance of a secondary market for federally-insured home mortgages through the Federal National Mortgage Association, an RFC subsidiary. That subsidiary has been transferred to the Housing and Home Finance Agency, effective September 7, 1950, in accordance with recommendations of the Commission on Organization of the Executive Branch of the Government.

### LENDING ACTIVITIES

The total amount of loans, purchases, and commitments made by the Corporation after June 30, 1947, may not exceed \$3,800,000,000 outstanding at any one time (\$3,750,000,000 pursuant to the RFC Act, as amended, and \$50,000,000 pursuant to Section 102 of the National Housing Act, as amended). Included in the total is the amount authorized for use by the Federal National Mortgage Association to purchase home mortgages, which, as stated above, was transferred to the Housing and Home Finance Agency. The authority contained in Section 102 of the National Housing Act was similarly transferred.

Against the remaining authority, the Corporation had outstanding at June 30, 1950, loans and commitments made after June 30, 1947, in the aggregate amount of \$652,114,000, leaving approximately \$400,000,000 available for additional commitments. As part of the general limitation placed on loans and commitments made after June 30, 1947, the RFC Act, as amended, states specific limitations of \$200,000,000 for loans to public agencies, \$40,000,000 for loans in disaster areas, and \$15,000,000 for loans on capital notes and debentures of insurance companies. However, loans and commitments made in these categories since June 30, 1947, constitute only a small percentage of the maximum lending authority granted; as of June 30, 1950, loans and commitments to business enterprises accounted for over 93 percent of the charges made against the total funds available. It should be borne in mind that the above has reference only to loans and commitments made after June 30, 1947, whereas the balance sheet and certain other schedules contained in this report relate to loans and commitments made both before and after that date.

The activities of the Corporation as they relate to the several phases of the economy in which the Congress has authorized the extension of financial assistance are discussed in the sections which follow.

#### Business Loans

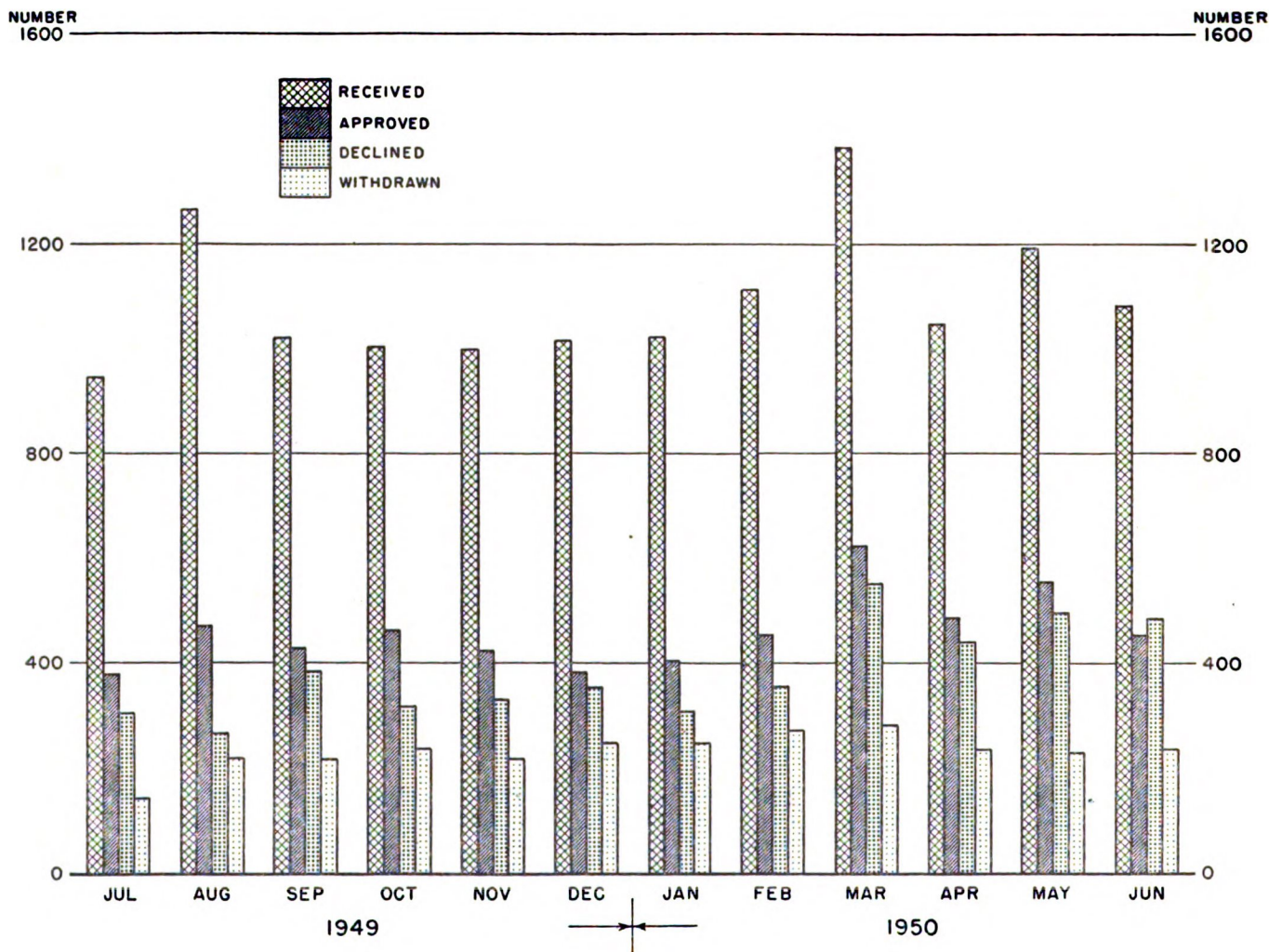
During the year ended June 30, 1950, the increasing prosperity enjoyed by the nation's business concerns indicated a steady recovery from the moderate recession of 1948-1949. In the course of the 1948-1949 period of contraction, some difficulties were experienced by business enterprises in the process of reducing their inventories and liquidating accounts receivable, but business concerns in general emerged in relatively strong financial positions. While earnings of business generally for the calendar year 1949 were substantially under those for 1948, results for the first six months of 1950 were well above those of the comparable period a year earlier.

In the annual report of the Corporation for fiscal year 1949 it was pointed out that the contraction of business activity occurring during the period covered had been accompanied by a marked rise in the number of requests for financial assistance received. The expansion of business activity since mid-summer 1949, however, did not bring with it a reduction in the volume of applications for business loans. Applications received during fiscal year 1950 were about 60 percent greater in number than during the previous year. It is believed that the larger volume of applications received during the past year can be attributed to a combination of the following factors:

1. *The effects of the 1948-1949 business contraction and the benefits of the subsequent recovery were not equally distributed among business concerns of all sizes.* By far the greatest number of requests for financial assistance received by the Corporation came from small and medium-sized businesses; it was these same classes of concerns which were most adversely affected by the 1948-1949 recession and they were the last to share in the benefits of the recovery.

2. *Reduced profit margins arising mainly from heightened competition.* Ample supplies of most goods resulted in stable or slightly declining prices during fiscal year 1950, but operating costs—particularly labor costs—continued to rise. The reduction in profit margins has been experienced by both small and large concerns, but the effects of such reductions have been felt more by smaller enterprises. Smaller concerns have not been able to realize operating economies from additions and improvements to their plants and facilities to the same extent as larger concerns. Even with reduced profit margins, the expanded volume enjoyed by the larger concerns has been sufficient, for the most part, to result in larger net earnings when measured on an absolute rather than relative base.

### BUSINESS LOAN APPLICATIONS



3. *Difficulties have been encountered by many concerns—usually the smaller ones—which had financed expansion programs and new ventures with short-term credit.* Short-term credit has been much easier to obtain than the long-term credit or equity capital which could have been used more advantageously to finance expansion programs.

4. *An increasing tendency for commercial financial institutions to emphasize liquidity in their loan portfolios.* While commercial lenders have shown an increasing tendency to avoid long-term loans, reports from the Corporation's agencies also have indicated that such institutions were somewhat more selective in the granting of short-term credits.

The pattern of business loan activity during fiscal year 1950 is illustrated in the accompanying chart. The 13,086 applications received embodied requests for credit in a total amount of \$1,592,297,000. The Corporation authorized 5,506 loans involving commitments of RFC funds for \$522,774,000; bank participation in 1,626 of these loans amounted to an additional \$70,866,000. Thus, the aggregate amount of credit made available to business concerns as a result of the Corporation's activities was \$593,640,000.

### ***Lending Policies***

The requirements of the RFC Act with respect to the making of loans to business enterprises are substantially as follows:

- (a) That no financial assistance may be extended unless the credit requested is not otherwise available on reasonable terms.
- (b) That all securities and obligations purchased and all loans made are of such sound value or so secured as reasonably to assure retirement or repayment.
- (c) That all loans made and all obligations and securities purchased shall mature in ten years or less.
- (d) That in agreements with banks to participate in loans wherein the Corporation's disbursements are deferred, the amount of the Corporation's participation is limited to 70 percent of the balance outstanding at the time of disbursement in those cases where the total amount borrowed is \$100,000 or less, and is limited to 60 percent of such amount in those cases where the total amount is over \$100,000.
- (e) That no director, officer, attorney, agent or employee of the Corporation shall participate directly or indirectly in the deliberation upon or determination of any question affecting his personal interests.

Beyond the requirements of the RFC Act, the following considerations are also taken into account when acting upon loan applications: (a) the public interest involved in the business to be financed, either from a national or local viewpoint; (b) soundness of the purposes for which the loan is to be used; (c) the ability to repay the loan out of earnings; (d) management must be satisfactory, although the Corporation refrains from taking part, directly, in the borrower's affairs.

Consistent with the foregoing, each application is considered on its own merits and loans approved are set up to meet the needs of individual circumstances.

Applications for loans are received in the Corporation's loan agencies and branch offices located in thirty-six important industrial and commercial centers throughout the nation and its possessions. Authority has been delegated to the managers of the loan agencies to approve applications for direct loans not exceeding \$100,000, and not exceeding \$350,000 if a bank agrees to participate in the loan. Applications for larger loans are examined in the loan agencies and forwarded to Washington with recommendations, for final review and decision. Although the managers of the loan agencies may recommend against granting loans, they are not authorized to decline any request for financial assistance, no matter how small an amount is involved. Applications on which the loan agencies recommend declination are given careful study in the Washington office to make certain that every reasonable basis for assisting the applicant has been explored. The Small Business Division of the Washington Office devotes particular attention to applications in amounts of \$100,000 or less. Only when all of these examinations have failed to demonstrate any possibility of making a loan on a sound basis in conformance with established practices is the loan finally declined.

### ***Assistance to Small Business***

As in previous years, the major part of the Corporation's business loan activity has been directed to the encouragement and assistance of small business enterprises. Continued interest in the financial

problems of small business has been evidenced by the Administration, the Congress, and a host of private bodies conducting research in economic fields. The experience of the Corporation during the past year indicates that small businesses are still encountering difficulty in securing adequate and reasonable long-term financing from private sources.

Over the years, the short-term credit requirements of small business have been well met by the nation's private lenders and investors. However, the Corporation's experience indicates that the source of many small business financial difficulties is the inability of smaller enterprises to secure adequate amounts of equity capital and long-term credit. Substantially similar conclusions have been reached by committees of the Congress, the Federal Reserve Board, and other bodies—both in and outside of Government—which have made studies in this field. Most needs for equity capital and long-term credit arise when new projects are undertaken or when existing concerns endeavor to hold or strengthen their positions through expansion and modernization of their facilities and by widening their markets. Large business firms frequently raise funds for these purposes through public sale of stocks or debentures, but this method is seldom employed by smaller concerns because of the prohibitive costs incurred in marketing small issues. The independence so much prized by small businessmen is also a deterring factor, for the owners of small concerns are often reluctant to secure capital from the sale of additional stock. Furthermore, new issue and secondary markets for the securities of smaller, more-or-less unknown concerns are practically non-existent.

Outside of the owner's personal resources, the greatest part of the equity capital and long-term credit needed by small business has been, and still is, supplied by local investors and relatives or friends of the principals. However, the importance of these traditional sources of small business funds has diminished. Prompted largely by income, inheritance, and estate tax considerations, there has been a change in the types of investment preferred by individuals, and the more liquid holdings (such as life insurance, mutual funds, Government notes and bonds, and the tax-exempt securities of political subdivisions) have gained in favor over equity investment.

Institutional investors, such as insurance companies, frequently supply long-term credit to business concerns under mortgage arrangements or by the private purchase of debentures. However, such arrangements are usually limited to amounts much larger than are sought by individual small business concerns.

Banks and other commercial financial institutions play a most important part in supplying the credit needs of small business, but advances from these institutions are usually limited to short-term needs. Numerous examples can be found in the experience of this Corporation where small businessmen applied for long-term RFC loans upon the advice and recommendation of the banks who were willing to supply all the short-term credit needed.

Why banks limit most of their business loans to short-term advances becomes apparent when some of the underlying changes in our nation's economic structure are examined. Comparing 1950 with 1940, it is found that the physical volume of business being transacted is now at least half again as great; furthermore, the prices of goods and services are now about two times as great as in 1940. All other things being equal, the amount of working capital required to carry on the present volume of business would be three times that needed in 1940. Some of the additional working capital has been supplied from the retained earnings of business concerns and through injections of new equity capital. However, a considerable portion of the additional working capital has been supplied by increasing the volume of short-term bank loans. The business loans of insured commercial banks are now some 260 percent above 1940. Besides furnishing most of the working capital needed to finance an expanding industrial economy, private lenders have also played a most important part in financing the tremendous number of housing units constructed and have also expanded their consumer credit programs to a very large extent.

With such wide markets existing for their loanable funds, it was natural for commercial financial institutions to have restricted the making of long-term business loans. For one thing, short-term business credit is usually made on an unsecured basis, and the processing and servicing of such loans are relatively inexpensive. On the other hand, long-term loans are usually secured by tangible collateral and the costs of the investigations, fees and legal work required in processing and servicing such loans, together with the lack of liquidity, tends to make them less attractive to commercial lenders than short-term loans. The experience of the Corporation has shown that the cost of processing and servicing relatively small individual long-term loans may well result in a net loss; however, when considered as a part of the wide variety of all loans, large and small, which comprise the Corporation's lending program, such loans may well be made without cost to the government.

Other factors also operate to restrain banks from making long-term business loans. Chief among these is the greater risk involved as compared to short-term advances. Important changes in business trends usually occur over relatively long periods of time; banks can make loans to extend over three months, six months, or even a year with reasonable assurance that no great fundamental changes will occur affecting the abilities of borrowers to repay. When longer periods of time are involved, however, the chances of adverse changes during the life of the loan are multiplied. Obviously, the degree of liquidity required for private lenders tends to restrain them from investment which, over a long period of time, might result in slow collections and extended "work-out" periods.

### ***Advisory Service to Small Business***

A substantial percentage of the business concerns which make inquiry regarding RFC financial assistance have not fully explored the possibilities of obtaining credit from private lenders. These applicants are directed to banks and other financial institutions and the Corporation's personnel makes every effort to assist the applicants in obtaining credit from such sources. In addition to inquiries regarding financial assistance, the Corporation also receives a large number of requests for advice on management, engineering, legal and accounting problems. As with other types of inquiries, practically all requests for business advice come from small concerns which seldom employ their own technical advisors and cannot always afford a large consulting firm. By using its engineers, accountants, and other personnel having long experience in the solution of business problems, the Corporation is able to render material assistance to small business in the field of management, operations and accounting, outlining possible solutions, and by indicating the sources from which expert technical and consulting assistance can be had.

### ***Applications Received***

Applications were received from every section of the country and from practically all lines of business endeavor. More than 86 percent of the requests were for credit in amounts of \$100,000 or less—typical small business loans. The relatively small number of applications for loans exceeding \$100,000 were submitted by firms that are comparatively small and far from dominant in their fields.

### ***Withdrawn Applications***

Approximately one out of every five requests for RFC credit is withdrawn by the applicant before final action is taken. During fiscal year 1950, more than a third of the withdrawals were made because the applicants had been able to secure financing from other sources or had so altered their plans that borrowing was unnecessary. An additional one-third of the withdrawals were made because the applicants recognized that their plans were not sufficiently developed, and that more time was needed to perfect their proposals or to determine the trend of their operations. The remainder were withdrawn for miscellaneous reasons.

### ***Declined Applications***

The Corporation declined 4,570 applications for business loans during fiscal year 1950. The amount of credit requested in these was about \$471,000,000. For more than half of these, the primary reason for declining was that the collateral was considered insufficient to support a loan in an amount large enough to be of benefit to the applicant. The collateral offered in the average declined application could be given a loan value equal to only about two-thirds of the amount of credit requested; for approved loans, the average loan value of the collateral exceeded the amount authorized by nearly 30 percent. In another large group of cases, the applications were declined because it appeared that the prospective earnings of the applicants were not sufficient to provide for orderly repayment of the loans.

Other reasons for declining loans included unacceptable collateral, lack of sufficient equity investment, inefficient or inadequate management, failure to demonstrate a need for RFC funds, and lack of adequate working capital even though the loans should be made.

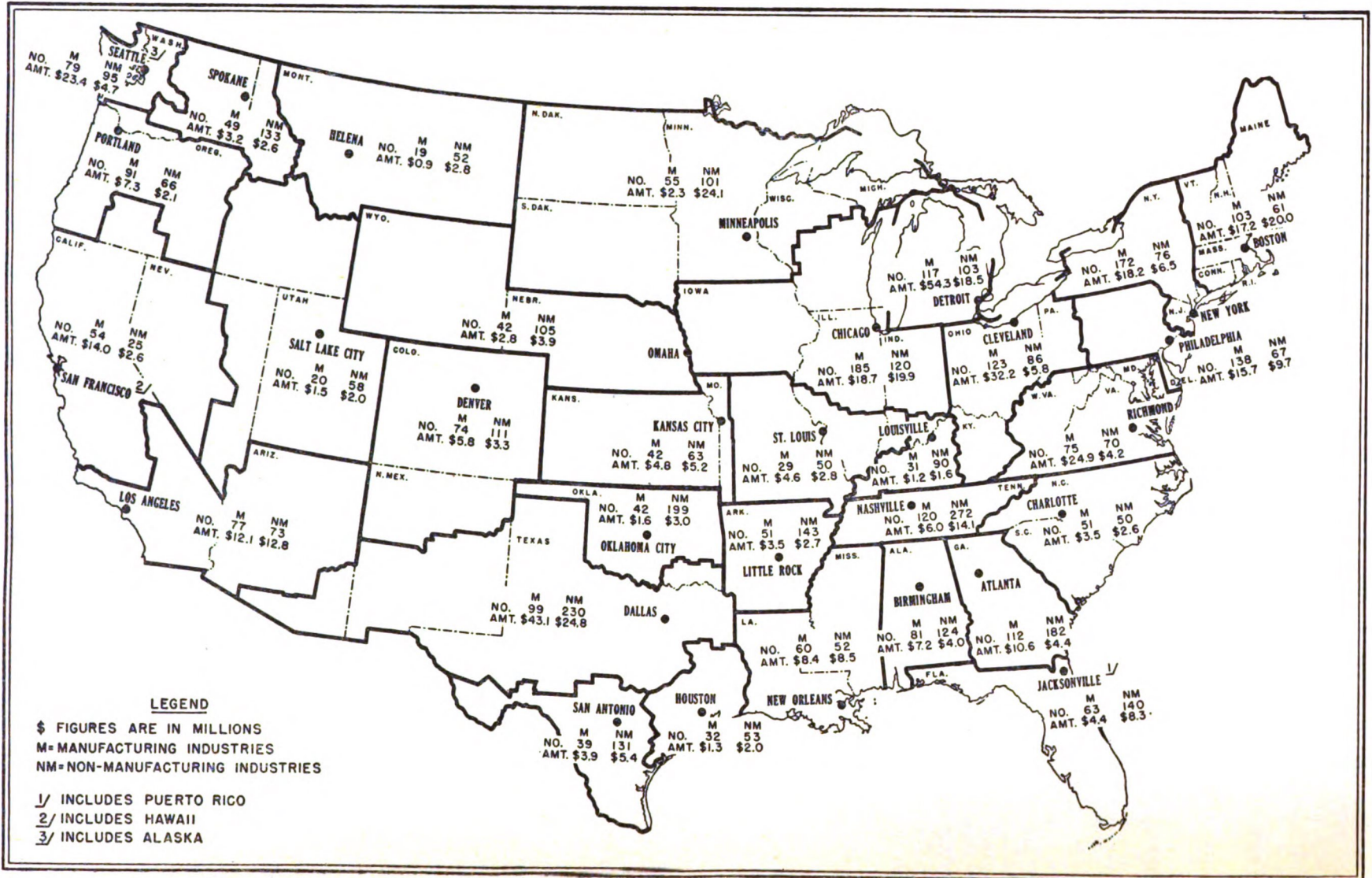
### ***Loans Authorized***

Of the 10,076 applications acted upon during the year, the Corporation approved nearly 55 percent. Including the banks' share of participation loans, the amount of credit authorized in these 5,506 approvals was \$593,640,000. Nearly 90 percent of the number of loans authorized were for amounts of \$100,000 or less—well in accord with previous experience. These smaller loans have always accounted for approximately 90 percent of RFC's business loan authorizations.

# BUSINESS LOAN AUTHORIZATIONS

## MANUFACTURING & NON-MANUFACTURING

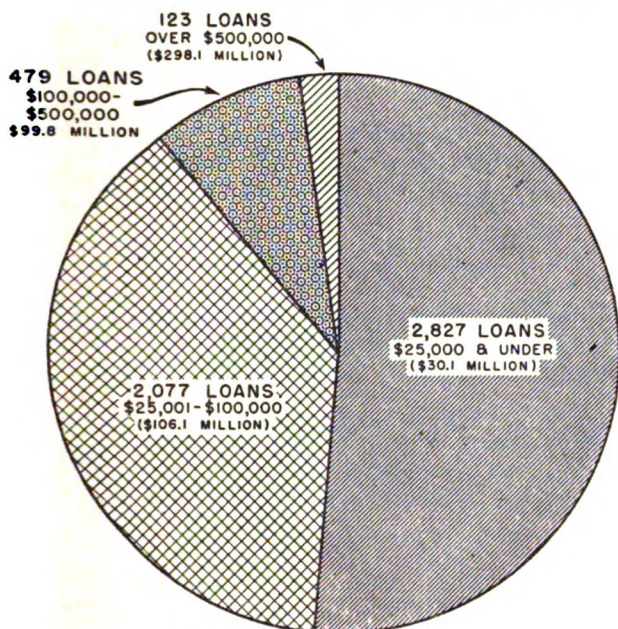
### BY LOAN AGENCY



The map on the facing page shows the number and amount of loans authorized in the territories served by each of RFC's 31 loan agencies. The accompanying chart shows similar information by size of loan.

## BUSINESS LOAN AUTHORIZATIONS

### NUMBER AND AMOUNT AUTHORIZED BY RFC



More than 650 different kinds of business enterprises were represented in the loans authorized during the fiscal year. Some of the specific lines of business included were represented by a single borrower, while in other lines there was considerable concentration. The kinds of businesses to which more than 100 loans were authorized during fiscal year 1950 are listed below; these ten industries combined accounted for nearly one-fourth of the total number of loans authorized to business enterprises during the year.

	Number	Amount Authorized *
General contractors (bldg. const.)	121	\$13,041,139
Grocery stores	119	1,799,036
Motor vehicle dealers	159	4,795,255
Restaurants and lunch rooms	106	2,065,446
Grain elevators and farm product warehousing	103	8,278,002
Motels, auto courts, etc.	152	4,471,539
Laundries and dry cleaning plants	165	3,035,102
Dairy product processors	117	6,086,224
Sawmills	145	14,567,072
Planing mills	104	15,266,171

\* Includes banks' share of participation loans.

In a general sense, the distribution of the Corporation's loan authorizations by kind of business conformed to the pattern of the business population; grocery stores, restaurants, and laundries, for example, are among the enterprises containing the greatest numbers of individual businesses, hence it can be expected that relatively large numbers of loans will be made in these fields. A few illustrations will show the circumstances under which some other concentrations occurred.

**Motor Vehicle Dealers**—Among the 44,000 new car dealers in the nation, there are many who sell less than 100 cars a year. That the Corporation's loans to automobile dealers went mostly to the smaller members of the industry is shown by the fact that the average loan in this field was approximately \$30,000. The proceeds of the loans made to members of this industry were intended mainly for modernization and expansion. Many borrowers were extending their service facilities to take advantage of the profit possibilities existing as a result of the record number of cars on the road and the growing tendency for motorists to take their repair jobs to modern, well-equipped shops.

**Grain Elevators**—The loans authorized to members of this industry were almost exclusively for the purpose of providing additional storage capacity for preservation of the nation's food and feed supplies. Agencies of the Department of Agriculture were authorized to make loans to farmers for on-farm storage facilities, but they do not make loans to commercial operators.

**Motels and Auto Courts**—One of the most outstanding examples of growth in an industry composed almost exclusively of small businessmen has been found in motor courts. The number of these establishments now exceeds 30,000, three times the number in existence ten years ago, and most of the expansion has occurred since 1946. Recently, there has been a pronounced trend toward larger establishments and better accommodations, which has increased the amounts of equity capital or long-term credit needed to construct and equip profitable motor courts. The loans authorized by the Corporation to motor court operators averaged slightly less than \$30,000 each and represented about half of the costs of buildings and furnishings. Typical motels financed with the Corporation's assistance had from 15 to 18 units and the average cost of a unit was approximately \$3,100.

### Large Loans

Because more than 90 percent of the loans made by the Corporation are for amounts of \$100,000 or less, the dollar amounts authorized in loans to particular industry groupings are usually in direct pro-

portion to the number of loans. However, it is occasionally found that one or two exceptionally large loans will swell the dollar total for a specific industry. For fiscal year 1950, there were six instances where more than \$15,000,000 was authorized to a specific industry to which less than 30 loans were authorized. These are summarized in the table below:

	<u>Number of Loans</u>	<u>Amount Authorized *</u>
Crude petroleum production.....	6	\$15,413,000
Quick-frozen foods.....	29	15,955,550
Steel works.....	10	42,647,000
Aircraft and aircraft parts.....	21	23,344,500
Motor vehicles and truck trailers.....	11	50,912,000
Air transportation (common carrier).....	3	21,220,300

\* Includes banks' share of participation loans.

### Use of Loan Proceeds

Additions to fixed assets and increases in working capital were the principal purposes intended for the proceeds of the loans authorized during fiscal year 1950. The distribution of the amounts authorized in direct loans and in the Corporation's share of participation loans was as follows:

	<u>Percent of total</u>
Fixed assets: Total.....	<u>37.3</u>
Construction.....	23.8
Machinery and equipment.....	13.5
Additional working capital.....	<u>37.1</u>
Replenishment of working capital and payment of debts: Total.....	<u>24.2</u>
To refinance short and intermediate-term capital improvement arrangements.....	8.0
To refinance short-term notes and accounts payable.....	8.6
To refinance long-term debt due banks and others (including approximately 2.5% to refinance RFC loans).....	7.6
Miscellaneous.....	<u>1.4</u>
	<u>100.0</u>

That portion of the proceeds shown as "Replenishment of working capital and payment of debts" requires a special explanation: It is not the practice of the Corporation to "bail out" banks or other creditors when they face losses. There are, however, instances in which amounts are authorized to pay off balances due in order that valid liens may be secured on the collateral. Study of a representative sample of loans authorized during 1950 indicated that more than three-fourths of the funds included in this category were intended for purposes which would improve the borrowers' working capital positions. Many of those instances occurred in situations where the borrowers had expended their working capital funds for improvements and additions to their fixed assets and then found that the sources relied upon for permanent financing were either unable or unwilling to extend the credit needed; others were found wherein borrowers had financed capital improvements entirely upon a short-term basis and found that their debt loads became most cumbersome during periods of lower earnings.

### Bank Participation

Both in number and amount, nearly a third of all loans authorized by the Corporation during fiscal year 1950 were made in cooperation with banks. A summary of bank participation in the Corporation's loans is given below:

	<u>No.</u>	<u>Amount Authorized (000)</u>			<u>% Taken by Banks</u>
		<u>Total</u>	<u>RFC</u>	<u>Bank</u>	
Total—All Participation Loans.....	1,626	\$191,346	\$120,480	\$70,866	37.0
Immediate Participations.....	385	75,617	52,488	23,129	30.6
Deferred Participations.....	1,241	115,729	67,992	47,737	41.2



Immediate participations, which may cover any portion of a loan agreeable to the Corporation and the participating bank, are of two general types. In one, the bank disburses and services the loan and the Corporation purchases an agreed percentage of each disbursement made on account of the loan. In the other type, the Corporation disburses and services the loan and upon disbursement the bank purchases its agreed share of each disbursement.

Deferred participations are those in which the Corporation and the bank execute an agreement under which the Corporation will purchase, upon demand by the bank, an agreed percentage of the unpaid balance of the loan, provided the bank has complied in all respects with the terms of the agreement. Such participation by the Corporation may not exceed 70 percent in loans of \$100,000 or less, and 60 percent in larger loans.

By employing these participation agreements, banks have been able to assist business enterprises by arranging loans larger than the banks' legal limits and loans extending over longer periods of time than bank policy ordinarily permits.

### Consummation of Loan Authorizations

*Disbursements*—Disbursements were made during the year on 3,246 loans; the total amount disbursed was \$302,394,000. In addition, banks disbursed \$96,714,000 on 1,006 deferred participation loans made in cooperation with the Corporation.

The amount of unrepaid balances on the Corporation's business loan disbursements increased by about \$134 million during the year. However, a drop of nearly \$46.5 million was shown in the outstanding balances of bank loans covered by RFC guarantees under deferred participation agreements. A comparison of outstanding balances at the close of fiscal years 1949 and 1950 is given in the accompanying table.

	June 30, 1949		June 30, 1950		Change	
	Number	Amount	Number	Amount	Number	Amount
	(Dollar figures are in thousands)					
Total .....	11,986	\$605,372	12,092	\$692,901	+ 106	\$+ 87,529
RFC Loans .....	5,187	384,346	6,667	518,351	+1,480	+134,005
Deferred participation bank loans . . .	6,799	221,026	5,425	174,550	-1,374	- 46,476

*Cancelled Authorizations*—During the year ending June 30, 1950, there were 1,052 loan authorizations for \$114,491,985 which were cancelled in full before any disbursements were made. In 478 of these cases, involving \$73,934,492, the authorizations were cancelled because the applicants were able to secure financing elsewhere or because the credit was no longer needed. In many of these cases the ability of the applicant to secure private financing or to forego borrowing was the result of the careful examination made of the applicant's affairs by the Corporation's personnel. In a number of cases, the Corporation had approved loans on bases which had been overlooked by banks or other private lending agencies, which, when they reviewed the situation, were willing to extend the financial assistance which they had declined in the first instance. In other cases, the financial advice and business counsel offered in the course of examining applications resulted in such improvement in the applicants' affairs that, prior to disbursement of the loan, it was determined that the requested credit was not actually needed.

A total of 416 loan authorizations for \$26,390,765 were cancelled because the applicants or guarantors were unable or unwilling to comply with the conditions of the loan authorizations. Included in this group were applicants who were unable to present clear titles to the collateral offered, and applicants whose financial positions had suffered severe adverse changes after the loan had been authorized but before disbursement.

The remaining 158 loan authorizations, involving \$14,166,728, were cancelled for miscellaneous reasons or because the applicants requested cancellation without stating definite reasons for their action.

*Cancelled Participation Agreements*—There were 362 instances, involving authorizations for \$30,098,497, where the participation agreements between the Corporation and banks were cancelled after participating banks had made some disbursements on account of the loans.

In 287 of these cases, involving authorizations for \$26,630,422, the agreements were cancelled at the request of participating banks which intended to continue the loans without RFC participation. The

amount outstanding on these loans when the agreements were cancelled was \$11,037,288—more than 40 percent of the original authorizations. The banks were apparently willing to continue these loans either because the outstanding balance had been reduced to conform to the banks' legal limits, or because seasoning during the period of the Corporation's guaranty had demonstrated the sound nature of the credit. The maturity dates on the loans taken over by banks were generally well into the future; 231 loans with outstanding balances totalling \$10,057,714 matured in 1951 or later years, and 91 of these matured in 1955 or later.

There were 44 loans wherein the banks requested cancellation of the participation agreement but stated no definite reason for so doing. All but six of these matured after 1950, so it is likely that the banks expected to continue these loans also.

In a few instances the Corporation initiated cancellation of the participation agreement because the banks had not complied with the provisions of the participation agreement.

*Loans Repaid in Full*—A total of 2,808 loans to business enterprises were repaid in full during fiscal year 1950. Of these, 765 loans, originally authorized for \$65,433,996, were repaid as scheduled in the loan agreements and subsequent modifications. The remaining 2,043 loans were repaid in advance of their final maturity dates. The table below shows the circumstances under which repayments were made.

	Amount Author- ized*	Amount Final Re- payment*	Total	Number, by Maturity Date		
				Prior to 1/1/51	1951- 1953	1954 and Beyond
Total.....	\$145,131,375	\$ 54,150,065	2,043	582	908	553
Refinanced outside of RFC.....	64,599,555	25,787,472	345	96	156	93
Repaid from borrowers' own re- sources.....	24,637,028	9,381,028	668	251	288	129
Repaid from proceeds of fire insur- ance policies.....	1,062,665	462,527	32	8	12	12
Refunded by loans in which RFC participated.....	30,882,963	7,462,339	286	64	128	94
Reason for advance repayment not reported.....	22,182,264	10,029,544	666	148	304	214
Repaid from proceeds of involun- tary liquidation prior to maturity of loan.....	1,766,900	1,027,155	46	15	20	11

\* Includes banks' share of participation loans.

The extent to which RFC loans are repaid in advance of final maturity evidences the effective assistance provided by RFC loans in overcoming financial difficulties of many borrowers, and also indicates the willingness of banks and other private financing agencies to extend credit after seasoning has demonstrated the soundness of the loan. An example will be found in the case of the Corporation's loan to Kaiser Steel Corporation, originally authorized in the approximate amount of \$114,000,000, but subsequently paid down to approximately \$91,000,000, and repaid in full on November 1, 1950, from the proceeds of privately-made loans and sales of securities to the general public.

*Losses*—Since the inception of the Corporation's business loan program in 1934, over 59,000 loans, in the aggregate amount of \$4.6 billions, have been authorized to business concerns; these figures include not only loans made pursuant to the Corporation's normal peace-time lending authority, but also the so-called "National Defense" loans made during World War II, housing loans made pursuant to Section 102 of the National Housing Act of 1948, and similar special authorities. Against these authorizations, the Corporation has disbursed \$2.2 billions. During this 16-year period, it has been necessary to write off as losses \$101 million, including \$35.5 million charged off in connection with the Lustron loans.

During fiscal year 1950, the amounts written off as uncollectible aggregated \$40 million, including the \$35.5 million Lustron loan charge-off.

## Housing Loans Under Section 102 of the Housing Act of 1948

As part of the general effort to encourage construction during a period of housing shortages, the Eightieth Congress, in Public Law 901, authorized the Corporation to:

“ . . . make loans to and purchase the obligations of any business enterprise for the purpose of providing financial assistance for the production of prefabricated houses or prefabricated housing components, or for large-scale modernized site construction.”

The Act was approved August 10, 1948, and little more than a month later the first loan was made under this authority. Effective September 7, 1950, responsibility for administration of this part of the National Housing Act was transferred to the Housing and Home Finance Agency, under the provisions of Reorganization Plan No. 23.

Most of the loans authorized by the Corporation under Section 102 of the National Housing Act were for the production of prefabricated houses. Through June 30, 1950, 33 loans had been authorized to 26 borrowers under this authority; the total amount of these authorizations was \$43,214,613, including \$325,000 taken by banks in participation loans. The largest single recipient of loans under this authority was the Lustron Corporation, for \$12,000,000 (the remaining commitments to this corporation were made under other authorities). In addition, a number of loans for similar purposes were authorized under the Corporation's regular lending authority. A summary of the Corporation's lending experience under the authority cited is given in the accompanying table.

	Total	Prefabricated Housing	Prefabricated Housing Components	Large-Scale Modernized Site Con- struction
No. of Loans Authorized . . . . .	33	24	2	7
Amount Authorized . . . . .	\$43,214,613	\$33,553,113	\$925,000	\$8,736,500
Cancelled before disbursement . . . . .	2,297,000	1,707,000	175,000	415,000
Uncancelled authorizations . . . . .	40,917,613	31,846,113	750,000	8,321,500
Undisbursed . . . . .	14,004,531	9,033,682	695,000	4,275,849
Disbursed . . . . .	26,913,082	22,812,431	55,000	4,045,651
Repaid . . . . .	592,846	537,846	—	55,000
Foreclosure* . . . . .	12,000,000	12,000,000	—	—
Outstanding Balance, June 30, 1950 . . . . .	14,320,236	10,274,585	55,000	3,990,651
Current . . . . .	13,985,482	9,939,831	55,000	3,990,651
Delinquent . . . . .	79,871	79,871	—	—
In Liquidation . . . . .	254,883	254,883	—	—

(Includes Banks' Share of Participation Loans)

\* Lustron Corporation.

### Railroads

The past decade has been a period in which the nation's railroads have made notable progress in recovering from the financial ills which beset them during the depression of the 1930's. Generally speaking, railroad earnings have been good and markets for their capital securities and debentures have been favorable. In consequence, few railroads have approached the Corporation for financial assistance. In the fiscal year just concluded, only four loan applications were received by the Corporation from railroad companies; in addition, one application was pending at the start of the period. The total amount requested in these five applications was \$8,175,000. Of these, two were authorized for \$3,774,000, two were declined, and one remained to be acted upon. Loans authorized to railroads must bear the approval of the Interstate Commerce Commission, as provided by Section 4(a) (1) of the RFC Act.

As the financial condition of the railroads improved, the Corporation concentrated its efforts on the liquidation of its railroad loans and investments. On June 30, 1950, the total of railroad loans and security purchases outstanding was \$110,427,000. This amount is less than one-tenth of the \$1,136,781,000 disbursed on railroad loans and security purchases during the history of the Corporation. The Corpora-

tion also held, on June 30, 1950, railroad securities in the amount of \$28,342,267 which were received under the reorganization plans of railroads indebted to the Corporation, and securities in the amount of \$288,655 received as the result of refunding an interest claim.

### Financial Institutions

Since 1939, the banks, insurance companies, and other financial institutions of the nation have made very few requests for RFC assistance. No applications for financial assistance were received from these sources during fiscal year 1950, but approval was granted during the year to one application filed earlier for a loan on the preferred stock of an insurance company. The amount of this loan was \$100,000. Also during the year, disbursement of \$3,000,000 was made on a similar loan previously approved. The needs of these companies for capital funds were certified by the Secretary of the Treasury, as provided in Section 4(a)(2) of the RFC Act.

At the close of fiscal year 1950, there were 495 loans or security purchases outstanding to financial institutions, aggregating \$109,969,251. A year earlier there were 638 such loans and security purchases outstanding, having an unpaid balance of \$122,816,564. A comparison of the amounts outstanding at the close of fiscal year 1949 and 1950 is given in the accompanying table.

	June 30, 1950		June 30, 1949	
	Number	Amount	Number	Amount
Purchases of preferred stock, capital notes and debentures of banks and trust companies.....	488	\$101,550,197	630	\$117,333,193
Loans on preferred stock of banks and trust companies..	2	135,928	2	139,371
Loans on preferred stock of insurance companies.....	4	8,255,000	3	5,309,989
Loans to banks and trust companies.....	—	—	2	3,082
Loans to mortgage loan companies.....	1	28,126	1	30,929
Total.....	495	\$109,969,251	638	\$122,816,564

With the approval of bank supervisory authorities, the amounts subscribed by the Corporation for the preferred stock and capital notes and debentures of banks are being reduced as rapidly as the financial condition of the banks warrants. The progress made in the liquidation of these investments can be measured by comparing the amount outstanding at the close of fiscal year 1950 with the \$574,170,000 outstanding on the same date in 1939.

### Disaster Loans

Overshadowed in the cold figures of the balance sheet, the Corporation's activities in the mitigation of hardship due to disaster are outstanding when considered from the viewpoint of human interest and the general welfare. Whenever and wherever disaster strikes, representatives of the Corporation proceed at once to the stricken area. There, in cooperation with the Red Cross, local Community Chests, Chamber of Commerce organizations, and other public and private agencies, surveys are made to determine the need for loans to rehabilitate individuals, families, business concerns, and local public bodies which may have suffered direct physical losses.

When the surveys show need for RFC loans, local committees are formed to serve in advisory capacities, and interviews and the processing of loan applications are undertaken in the stricken area. As a rule, the Corporation's disaster loan procedure is operating within one or two days after the catastrophe occurs.

The practices governing the granting of disaster loan credits are much more liberal than those covering other types of loans made by the Corporation. However, although there is no statutory requirement therefor, it is not the practice to make loans to victims of catastrophe if credit is being made generally available in the disaster area from normal sources on reasonable terms.

Any citizen or any alien possessing his first citizenship papers may apply for a disaster loan. Business concerns, farmers, churches, eleemosynary institutions, and public agencies are also eligible. The interest rate on disaster loans is fixed at 3 percent; four months' free interest is automatically allowed, and the loans may extend over periods as long as 10 years. However, in connection with every loan, regardless of use or size, there must be a reasonable prospect that the loan will be repaid, and such collateral security is required as the borrower may reasonably be expected to furnish.

Despite the fact that disaster loans are made on very liberal terms, losses sustained in the program have been relatively small. This is high tribute to the integrity of the borrowers. Through June 30, 1950, 26,080 loans had been authorized to disaster victims for a total amount of \$60,861,000. Disbursements against these authorizations totalled \$49,132,000; it has been necessary to charge off as losses \$3,330,000.

During fiscal year 1950, the Directors of the Corporation found that emergency situations existed in 13 areas as the result of major disasters. In some of these, local agencies were well able to provide for the needs of the victims, and but little need was felt for the Corporation's assistance. In other areas, however, considerable numbers of requests for aid were received. The disaster areas designated during the past year are listed below:

<u>Nature of Disaster</u>	<u>Location</u>	<u>Date</u>
Flood.....	Hannibal, Missouri.....	July, 1949
Hurricane.....	Florida.....	August, 1949
Windstorm and Flood.....	Skagit River Valley, Wash.....	November, 1949
Fire.....	Hyndman, Pennsylvania.....	December, 1949
Flood.....	Ohio and Wabash Rivers, Illinois and Indiana.....	January, 1950
Flood.....	Western Tennessee.....	January, 1950
Flood.....	Western Kentucky.....	March, 1950
Flood.....	Red River, North Dakota and Minnesota.....	April, 1950
Tornado.....	Holdenville, Oklahoma.....	April, 1950
Flood.....	Southeastern Nebraska.....	May, 1950
Explosion.....	South Amboy, New Jersey.....	May, 1950
Flood.....	Crooksville, Ohio.....	June, 1950
Flood.....	Northcentral West Virginia.....	June, 1950

Applications for assistance because of disasters numbered 287 during fiscal year 1950. The total amount of financial assistance requested was \$1,784,000. The number approved during the year was 215, for \$1,171,000.

For the most part, catastrophe loan authorizations are made in relatively modest amounts. The distribution by size and general type of those approved during fiscal year 1950 is given in the accompanying table:

<u>Size of Loan</u>	<u>Total</u>	<u>Business Enterprises</u>	<u>Farmers</u>	<u>Individuals (households)</u>
\$500 or less.....	30	—	1	29
\$501-\$1,000.....	34	6	5	23
\$1,001-\$2,500.....	63	21	7	35
\$2,501-\$5,000.....	38	26	4	8
\$5,001-\$10,000.....	26	20	3	3
\$10,001-\$25,000.....	16	13	2	1
\$25,001 and over.....	8	8	—	—
Total.....	215	94	22	99

Nearly three-fourths of all disaster loan applications are processed within a week of the date they are received. The processing of those filed by business enterprises requires more time than for those filed by individuals and families, mainly because of the time required to determine the extent of insurance coverage. The Corporation takes pride in the swiftness with which its disaster loan functions are placed in operation and the rapid manner in which the rehabilitation needs of catastrophe victims are met.

### Public Agency Loans

An important but relatively little known contribution to the economic stability, health, and well-being of the nation has been made by the Corporation through its public agency loans. By purchasing the obligations of States, counties, municipalities, and other public agencies which could not secure funds elsewhere, the Corporation has aided in financing such projects as waterworks, sewer systems, transportation facilities, hospitals, bridges, airports, and irrigation districts.

With RFC assistance, relatively small installations have been constructed in tiny communities which previously had been unable to obtain credit, and large projects have been undertaken and completed in great urban areas which at the time could not procure financial aid by the sale of bonds in the open market. In city and country, in large projects and small, this work has been carried on not only with great local benefit, but on a self-supporting basis.

The scope of these undertakings, and their successful fulfillment, are shown by the fact that of almost \$1.5 billion authorized during the past 18 years, only \$25 million remained unpaid at June 30, 1950. This total includes \$9,815,227 representing the cost of securities purchased by the Corporation from the Public Works Administrator, Federal Works Agency, of which \$554,440 were purchased at par and \$9,260,787 at two-thirds of par value; in addition to the securities purchased, the Corporation holds bonds in the amount of \$1,478,313 acquired through advances made for care and preservation of the collateral for the original securities. In the event such securities are disposed of for amounts exceeding the cost to RFC, the excess will be credited to the Corporation's liability for funds held; similarly, disposals for less than cost will decrease such liability. A payment of \$5,000,000 was made into miscellaneous receipts of the Treasury during the year. During the fiscal year 1950, securities costing \$1,047,827 were disposed of for \$1,486,573. A large portion of the repayments were affected by the sale of bonds to private investors, often at a premium. As seasoned issues, these bonds were in demand by the same investors who displayed little interest in them when first offered.

During the fiscal year 1950, 33 loans totalling \$10,014,000 were approved; 26 of these were for less than \$250,000 and only 2 were for more than \$1 million. As an illustration of how the Corporation aids small towns in their financing problems, 22 communities of less than 2,000 population sold bonds to the Corporation for water and sewer construction.

In addition to the loans actually made, there are many cases in which the Corporation through its advice and suggestions has made it possible for municipalities to obtain private financing even when such financing had previously been declined. During the year, many hundreds of inquiries were received from public agencies requesting financial counsel and assistance. In each case the Corporation sought means to assist the agency in securing bond money through private sources; an RFC loan was considered only if the private aid was not available on reasonable terms. Many municipalities, after their representatives had conferred with RFC representatives, revised the scope and method of financing their construction projects, and were able to place them on such an improved basis that private lenders supplied the funds and RFC financial aid became unnecessary.

#### **Federal National Mortgage Association**

The assets set forth in the comparative consolidated balance sheet of the Corporation include insured and guaranteed mortgages in the aggregate amount of \$1,156,494,358. Of this total \$1,055,632,280 was owned by Federal National Mortgage Association which, during the entire fiscal year 1950, was a wholly-owned subsidiary of the Reconstruction Finance Corporation.

The purpose of the Association is to provide a secondary market for housing mortgages insured by Federal Housing Administration or guaranteed by Veterans Administration. The Association purchases such mortgages from banks, mortgage companies and other primary lenders, thus enabling such lenders to make additional mortgage loans. The mortgages are subsequently offered to private investors on terms which provide such investors an opportunity to employ funds on an immediate income-producing basis.

The activities of the Association are described in detail in the report made to the Federal Housing Administrator, pursuant to the Housing Act of 1948, as amended. A copy of that report (with certain charts deleted), submitted for the six months ended June 30, 1950, which also describes the activities of the Association for the full year, is made a part of this report as Appendix A. During the year covered by this report, the Association made commitments to purchase 219,672 mortgages for \$1,784,471,000. Actual purchases during the year amounted to 133,032 mortgages for \$946,397,000. At June 30, 1950, the Association had outstanding commitments for the purchase of 113,904 mortgages for \$1,100,445,000.

Of equal significance is the report on sales of mortgages effected by the Association during the year. Beginning in October, 1949, the Association intensified its efforts to market its portfolio of mortgages to financial institutions and other investors and from that date through June 30, 1950 (primarily

in the last three months of the year), 44,883 mortgages in the amount of \$311,292,000 (exclusive of sales of \$17,623,000 of mortgages held by RFC) were sold. The sales program has continued at a comparable rate during the fiscal year beginning July 1, 1950.

Pursuant to Reorganization Plan No. 22 of 1950, the Association, together with its functions, assets, liabilities, personnel, etc., was transferred to the Housing and Home Finance Agency, effective September 7, 1950.

### NON-LENDING ACTIVITIES

All of the programs described above relate to lending activities conducted by the Corporation during the fiscal year 1950.

In addition to the lending activities, the Corporation is engaged in certain activities undertaken pursuant to authority granted to assist in financing various projects relating to national defense, war, and reconversion to a peace-time economy. The production and sale of synthetic rubber, the purchase, production and sale of tin, and the operation of Central America abaca plantations are being continued pursuant to specific legislation and, in order to meet the current international situation, are being expanded in scope beyond that which was found necessary during the fiscal year 1950. These activities, as well as the liquidation of assets acquired or liabilities incurred while other wartime programs were active, are conducted on an accountability basis, as further explained below.

Pursuant to the provisions of Public Law 860, Eightieth Congress, the Secretary of the Treasury was authorized to cancel notes of the Corporation in the amount of \$9.3 billion, representing the amount of unrecovered costs expended by the Corporation through June 30, 1947, in connection with national defense, war, and reconversion programs. That statute also directed the Corporation to deposit in miscellaneous receipts of the Treasury all net proceeds obtained from operation or liquidation of these programs. As of June 30, 1947, there was on hand a balance of assets costing \$2,593,894,697. As of June 30, 1950, the total of such assets at cost amounted to \$768,797,153, which includes \$652,183,855 pertaining to assets held in connection with continuing operations. In addition, the Corporation held, after payment of all operating and capital costs, net proceeds in the amount of \$179,718,600. Payments to the Treasury have heretofore been made in the amount of \$125,000,000, representing net proceeds from the operation and liquidation of these programs.

A complete statement of the accountability of the Corporation to the U. S. Treasury under all non-lending programs will be found in Exhibit C. A detailed break-down of all assets held at June 30, 1950, is shown as Schedule 1 of Exhibit C.

#### Synthetic Rubber, Tin and Abaca Programs

The legislation authorizing the synthetic rubber, tin and abaca programs makes provision for reports to the Congress covering activities under the respective programs. Such reports will be found as Appendices B, C and D, respectively, of this report, each describing in detail the activities and operating results for the fiscal year 1950.

#### Liquidation of Other Wartime Activities

In addition to the investment of \$4,267,230 in the aluminum and magnesium forging plant which, during the fiscal year 1950, was operated under agreement between the Corporation and Wyman-Gordon Products Corporation, there remained for liquidation at June 30, 1950, assets costing \$112,346,068 acquired under wartime programs, including \$36,142,963 representing cost of plants under long-term leases. At June 30, 1949, the total of such assets amounted to \$136,190,558, and at June 30, 1948, they totalled \$261,779,539. The decrease of \$23,844,490 during the fiscal year 1950 resulted from collections and offsets on loans, advances and receivables, sale or other disposal of inventories, plants and other properties, write-off of uncollectible receivables, and transfer of strategic materials to the national stockpile and to other Government agencies.

At June 30, 1950, there remained for liquidation, under the liquidating wartime programs, liabilities aggregating \$7,930,514. Such liabilities totalled \$12,573,852 at June 30, 1949, and \$54,994,469 at June 30, 1948. The decrease of \$4,643,338 during the fiscal year resulted from payments, offsets and adjustments.

The net aggregate decrease of \$19,081,099 in these assets and liabilities during the fiscal year 1950, as shown by the foregoing figures, does not accurately reflect the full extent of liquidation accomplished because it does not reflect assets and liabilities which accrued after the beginning of the fiscal year but which were liquidated before the end of the year. For example, a total of over 10,000 new receivables and payables amounting to more than \$15,000,000 were filed during the year, while a total of over 6,200 receivables and payables amounting to more than \$33,500,000 were disposed of administratively during the same period, some going into litigation. Moreover, substantial disposals of excess property during the year by sales and leases are not fully reflected in the year's net decrease of assets except where there was a complete disposal for cash. The liquidation of some programs may be reflected by an increase of assets; for example, the progressive development of such items as land grant claims has substantially increased the accounts receivable.

Typical of the liquidation accomplishments during the fiscal year were the following: property of \$43,676,977 book value was disposed of by sale, lease or transfer; stockpile operations were wholly liquidated except for two virtually unsalable categories; \$3,547,517 of land grant claims were developed and filed against railroads and \$2,259,282 disposed of; wartime subsidy claims in a substantial amount were settled, typical of which were some \$804,000 of meat subsidy claims; and other claims and accounts totalling \$31,262,780 were disposed of administratively, some of which went into litigation.

Typical of the items and categories which comprise the assets and liabilities on the accounts for liquidation as of June 30, 1950, are the following: \$36,142,963 of property under lease; \$14,689,072 of property under conditional sales contracts; \$43,847,022 of property for disposal, subject to priority, national defense and security requirements. Included also are land grant claims filed and pending collection, \$3,706,851; and other miscellaneous claims pending settlement in the amount of \$26,869,553, exclusive of matters in litigation and certain other items such as current receivables and payables.

As of June 30, 1950 the operating agreement between this Corporation and Wyman-Gordon Products Corporation was terminated, and an interim permit, effective July 1, 1950, for use of the plant was issued by RFC to the Department of the Air Force. Legislation is now pending providing for the official transfer of the facilities to the Department of the Air Force. Nominal title to the facilities is as yet held by the RFC and the value of the properties is reflected on the records of RFC. Wyman-Gordon continues to operate the plant under a lease arrangement with the Department of the Air Force.

The program of liquidating the remaining assets and liabilities is being brought to conclusion as promptly as circumstances permit. It is estimated that substantially all such activities will be liquidated by the close of the fiscal year 1951 except for development of land grant claims, settlement of litigation and of claims which may arise during the fiscal year, servicing of industrial plant facilities which are the subject of long-term leases or deferred payment conditional sales agreements, and disposal of property upon expiration of such leases.

#### Smaller War Plants Corporation

Liquidation of the assets of the Smaller War Plants Corporation, transferred to the Reconstruction Finance Corporation pursuant to Executive Order of December 27, 1945, continued during fiscal year 1950. At the close of fiscal year 1950, accountability for the net assets of SWPC had been reduced to \$8,809,900 which is \$10,591,556 below the figure for June 30, 1949. The major portion of this reduction is the reflection of \$10,000,000 remitted to the U. S. Treasury on June 29, 1950, from the proceeds of the liquidation program. The assets remaining on June 30, 1950, comprise the following:

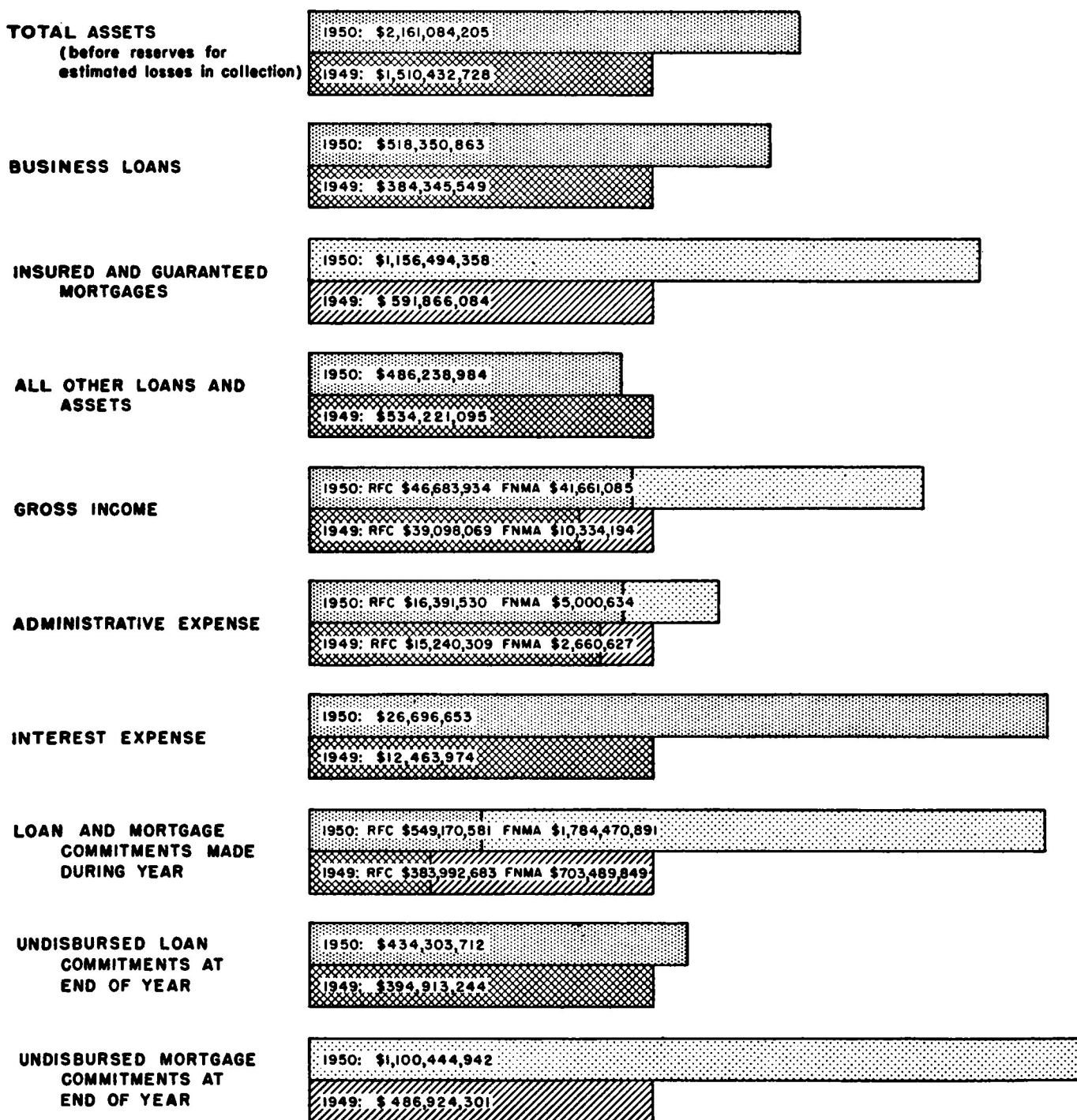
Proceeds realized and payable to U. S. Treasury .....	\$3,550,480
Loans outstanding .....	3,458,310
Notes and accounts receivable .....	963,505
Machinery and equipment .....	215,838
Property acquired in liquidation of loan indebtedness .....	621,767
	\$8,809,900

The progress made in the liquidation of SWPC loans may be measured by comparing the 118 loans for \$3,458,310 which were outstanding on June 30, 1950, with the 208 loans for \$5,427,120 outstanding a year earlier.



## FINANCIAL STATEMENTS

The financial statements contained in this report have been prepared from the books and records of the Corporation kept in accordance with sound accounting principles applicable in the circumstances, and are subject to their related notes. A comparison of financial highlights of the Corporation's lending activities, as reflected in the records, is set forth in the following chart:



### Balance Sheet—Exhibit A

Of the net increase in total assets shown in the Comparative Consolidated Balance Sheet from \$1.421 billion at June 30, 1949, to \$2.103 billion at June 30, 1950, \$564 million resulted from increased holdings of home mortgages insured by VA and \$134 million resulted from increased loans to business enterprises; the balances of all other classes of loans declined during the year. The net increase in outstanding business loans is after charging off loans deemed uncollectible, (including \$35.5 million applicable to the Lustron loans), which charge-offs are offset by a decrease in "Estimated losses in collection" and an increase in "Properties and securities acquired in liquidation of loan indebtedness," the latter in an amount representing the appraised value of the assets acquired through liquidation of the loans.

Notes payable to the U. S. Treasury increased in proportion to the increase in assets. Such increases were, of course, not identical because of changes in other liabilities, primarily the liability to the U. S. Treasury for net proceeds from liquidation of assets and securities acquired under national defense, war, and reconversion programs. The amount of such liability increased from \$96,422,018 at June 30, 1949, to \$179,718,600 at June 30, 1950; this increase of approximately \$83,296,000 was net, after paying into miscellaneous receipts of the Treasury the sum of \$25,000,000 (\$100,000,000 was paid in the fiscal year 1949). Further payments to the Treasury of the \$179.7 million held at June 30, 1950, are contingent upon requirements for expenditures in connection with the synthetic rubber, tin and abaca programs. With respect to the latter, substantial expenditures of a capital nature are contemplated in the near future to carry out the expansion of abaca plantings in Central America, as provided in Public Law 683, 81st Congress. Similarly, certain expenditures are required to reactivate synthetic rubber plants and to purchase additional inventory of tin concentrates. The Corporation has followed the practice of retaining, in substantial amounts, the proceeds of liquidation or operation of assets acquired in national defense, war and reconversion programs (for which notes of the Corporation were cancelled pursuant to Public Law 860, 80th Congress) for the purpose of meeting financing requirements of all non-lending programs. To the extent that such funds are utilized in the lending programs of the Corporation, they are considered in the same light as borrowings from the Treasury and interest thereon is computed at the same rate as is currently paid to the Treasury, i.e., the rate fixed by the Secretary of the Treasury after taking into consideration the current average rate of outstanding marketable obligations of the United States. At the time such funds are required for operating or capital expenditures in connection with non-lending programs, or when paid into miscellaneous receipts of the Treasury, it becomes necessary to borrow equivalent amounts from the Treasury pursuant to the usual note-issuing procedure.

The following statement sets out in summary form the source and use of funds during the fiscal year 1950.

*(in Millions of dollars)*

#### Receipts

##### Operations:

Business loan repayments . . . . .	\$ 120.9	
Mortgage sales and repayments . . . . .	372.3	
All other loan operations (net) . . . . .	112.3	
Non-lending programs . . . . .	110.9	\$ 716.4

##### Repayment of non-interest-bearing advances to other agencies made by Congressional direction:

E.C.A.—1949-1950 . . . . .	1,000.0	
E.C.A. Korean assistance . . . . .	30.0	
Relief Palestine refugees . . . . .	8.0	1,038.0

Total receipts . . . . .		\$1,754.4
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#### Disbursements

##### Loan operations:

Business loans . . . . .	302.4	
Mortgage purchases . . . . .	946.4	1,248.8

##### Payments to Treasury:

Dividend . . . . .	1.3	
Interest on notes . . . . .	17.1	
Liquidation proceeds of war activities . . . . .	25.0	
Liquidation proceeds of Smaller War Plants Corporation . . . . .	10.0	
Liquidation proceeds of Public Works Administration . . . . .	5.0	
Liquidation proceeds of War Damage Corporation . . . . .	.6	59.0

Advances by Congressional direction to other Government agencies:		
E.C.A. Korean assistance .....	\$ 30.0	
Relief of Palestine refugees .....	8.0	\$ 38.0
		<hr/>
Total disbursements .....		\$1,345.8
		<hr/>
Excess of receipts over disbursements .....		\$ 408.6
		<hr/> <hr/>

**Disposition of Excess of Receipts**

Borrowings from Treasury (interest-bearing) .....	\$ 702.2	
Less: Repayments .....	102.0	
	<hr/>	
Net borrowings—(interest-bearing) .....		\$ 600.2
Borrowings from Treasury (non-interest-bearing) .....	38.0	
Less: Repayments .....	1,038.0	
	<hr/>	
Net repayments—non-interest-bearing .....		1,000.0
		<hr/>
Excess repayments over borrowings .....		399.8
Increase in cash on deposit with U. S. Treasury and others .....		8.8
		<hr/>
		\$ 408.6
		<hr/> <hr/>

The balance sheet, as of June 30, 1950, reflects dividends payable to the U. S. Treasury of \$18,674,005, as compared to \$1,345,185 at June 30, 1949. The dividend payable represents earnings of the Corporation in excess of \$250,000,000 which, pursuant to the RFC Act, as amended, is retained as accumulated surplus. As indicated in the Statement of Net Income, the Corporation's net income (including that of Federal National Mortgage Association) for the fiscal year 1950, was \$27,247,193. The dividend payable, as shown above, represents net earnings of the Corporation (after surplus adjustments), exclusive of the earnings of Federal National Mortgage Association during the fiscal year 1950, but including a dividend of \$10,000,000 declared and paid by the Association on the capital stock held by Reconstruction Finance Corporation. The balance of the Association's accumulated net earnings are retained as undistributed earned surplus reserved for losses and contingencies.

The balance sheet amounts do not include commitments undisbursed as of June 30, 1950, in the following amounts:

- |  |                |
|--|----------------|
| 1. Direct loan commitments to industrial and commercial enterprises (including Immediate Participations) ..... | \$ 233,712,210 |
| 2. Commitments to participate in loans made by banks—Deferred Participations .....                             | 129,792,617    |
| 3. Other loans .....   | 70,798,885     |
| 4. Commitments to purchase insured or guaranteed mortgages .....   | 1,100,444,942  |

**Statement of Net Income from Lending Activities—Exhibit B**

Total income of the Corporation increased by \$38,912,756 over the \$49,432,263 earned in the fiscal year 1949, an increase of approximately 79 percent. The major portion of this increase came from increased interest, premiums, and commitment fees earned in the mortgage program. Of the Corporation's total income of \$88,345,019, Federal National Mortgage Association earned \$41,661,085, as compared with \$10,334,194 earned by the Association in the fiscal year 1949. Interest income from business loans increased from \$12,588,183 to \$18,507,681, or \$5,919,498 (approximately 47 percent); this increase resulted entirely from the increase in the portfolio of business loans previously discussed. Income from properties and securities acquired in liquidation of loan indebtedness increased by \$6,594,675, primarily because of the sale at a price in excess of the carrying value of properties held for RFC by Consolidated Realty Corporation. That corporation was organized in 1938 for the purpose of liquidating property acquired by RFC through foreclosure of its loan to the Prudence Company Inc. Sale of the properties from which the profit referred to was earned, effected liquidation of most of the remaining properties acquired in earlier years.

Net income from lending activities (other than from FNMA) amounted to \$9,784,653 in the fiscal year 1950. This represents 9.785% on the investment of the Treasury in capital stock of the Corporation. Included in such net income are extraordinary profits of \$6,280,000 earned during the year from sale

of assets acquired through foreclosure, discussed above. After elimination of such extraordinary profits, net earnings were \$3,504,653, representing a return of approximately 3½% on the Treasury's investment of \$100,000,000 in the capital stock of the Corporation. This compares with the amount of \$1,875,000 (discussed below) paid by the Treasury, at 1⅞%, on the cost to it of funds invested in the Corporation's capital stock. For the two-year period during which the Corporation has operated under existing legislation, net earnings have amounted to \$8,730,633, after elimination of extraordinary profits of \$6,280,000, representing a gross return of 4.4% per annum on the capital stock outstanding.

Interest expense increased very substantially over that of the prior year; such increase is attributable primarily to increased borrowings necessitated by the increase in loans. As indicated previously, the Corporation paid interest to the Treasury at a rate fixed by the Secretary of the Treasury after taking into consideration the current average rate of outstanding marketable obligations of the United States on all moneys borrowed; this rate was 1⅞% on all but a very minor portion of borrowings outstanding during the year. Not all of the funds used by the Corporation bear interest. For example, no interest is paid on the amount of \$250,000,000 representing earned surplus which was not borrowed by the Treasury and which the Corporation was directed by the Congress to retain after paying all accumulated earnings in excess of that amount into the Treasury as dividends. Also, in accordance with the RFC Act, as amended, no interest is paid on the amount of \$100,000,000 invested in capital stock of the Corporation by the Treasury. Had interest been paid on the investment of the Treasury in the capital stock, interest expense would have been increased by \$1,875,000 in the fiscal year 1950; in the prior year such increase would have amounted to \$2,242,000 because capital stock outstanding was \$325,000,000 for a brief period (\$225,000,000 of capital stock was retired on July 23, 1948, pursuant to the provisions of Public Law 548, 80th Congress).

In arriving at its net income, the Corporation has made provision for future losses on the basis of its past loss experience in the various major classes of loans. This "reserve method" of recognizing the contingency of loss was adopted effective July 1, 1948. Based on amounts charged off and estimated losses through June 30, 1948, experience factors were adopted for application to disbursements in the several classes of loans. The factor with respect to business loans (the class in which the Corporation had most of its activity during fiscal year 1950) was 3.3 percent; based on an average maturity of five years, this amounted to .66 percent per annum. Reexamination of the Corporation's loss experience to date indicates that the business loan factor originally adopted was high in light of the cumulative experience through June 30, 1950. Accordingly, the factor for business loans was reduced to approximately 3 percent in arriving at the provision for losses of \$8,523,775 for the fiscal year 1950. It is anticipated that this percentage will be further reduced in the fiscal year 1951.

Although total administrative expenses remained approximately the same in the fiscal years 1949 and 1950, expenses charged to lending activities increased by \$3,491,228—\$17,900,936 in 1949 as compared to \$21,392,164 in 1950. Of the increase in administrative expenses charged to all lending activities, \$2,340,007 resulted from an increase in expenses of Federal National Mortgage Association due to the volume of mortgage activity.

## **Financial Exhibits**

# RECONSTRUCTION FINANCE

## EXHIBIT A—COMPARISON

### Assets

	June 30, 1950	June 30, 1949
<b>CASH</b>	\$ 16,861,687	\$ 8,263,272
<b>LOANS, SECURITIES AND RELATED RECEIVABLES (other than insured and guaranteed mortgages and loans to foreign governments):</b>		
Loans, and securities at cost:		
Industrial and commercial enterprises . . . . .	\$ 518,350,863	\$ 384,345,549
Railroads . . . . .	110,426,721	117,246,021
Financial institutions . . . . .	109,969,251	122,816,564
Political subdivisions of states and territories . . . . .	24,907,491	30,195,439
Catastrophe loans . . . . .	4,516,948	3,998,054
	768,171,274	658,601,627
Accrued interest and dividends . . . . .	9,723,031	9,564,789
Other receivables arising from loans and securities . . . . .	2,266,535	2,031,817
	780,160,840	670,198,233
Less estimated losses in collection . . . . .	58,000,000	89,000,000
	722,160,840	581,198,233
<b>INSURED AND GUARANTEED MORTGAGES AND RELATED RECEIVABLES:</b>		
Partially guaranteed by Veterans Administration . . . . .	915,997,115	251,720,134
Insured by FHA . . . . .	240,497,243	340,145,950
Accrued interest . . . . .	3,769,495	1,941,500
Other receivables arising from mortgages . . . . .	1,124,917	1,237,986
	1,161,388,770	595,045,570
<b>LOANS TO FOREIGN GOVERNMENTS, including accrued interest:</b>		
United Kingdom of Great Britain and Northern Ireland, less prepayments . . . . .	68,345,327	114,001,074
Republic of the Philippines . . . . .	60,003,288	60,003,288
	128,348,615	174,004,362
<b>OTHER ASSETS:</b>		
Properties and securities acquired in liquidation of loan indebtedness, including railroad reorganizations, at lower of cost or appraised values . . . . .	33,822,567	27,485,482
Equity in net assets of Defense Homes Corporation held for liquidation—Note D . . . . .	32,133,188	33,073,643
Miscellaneous accounts and other notes receivable, less estimated losses of \$83,379 in 1950 and \$101,841 in 1949 . . . . .	7,330,059	1,360,155
Furniture and fixtures, less accumulated depreciation . . . . .	1,038,479	1,002,011
	74,324,293	62,921,291
	\$2,103,084,205	\$1,421,432,728

**CORPORATION AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEET**

**Liabilities**

	June 30, 1950	June 30, 1949
<b>LIABILITIES TO THE PUBLIC:</b>		
Arising from loan programs:		
Accounts payable.....	\$ 1,704,623	\$ 1,202,407
Trust and deposit liabilities—Note E.....	24,086,353	25,963,960
	<u>25,790,976</u>	<u>27,166,367</u>
Arising from national defense, war and reconversion programs:		
Accounts payable.....	27,173,725	39,907,797
Trust and deposit liabilities.....	612,939	2,822,678
Provision for war damage insurance claims.....	—	630,000
	<u>27,786,664</u>	<u>43,360,475</u>
	\$ 53,577,640	\$ 70,526,842
<b>LIABILITIES TO OTHER U. S. GOVERNMENT AGENCIES:</b>		
Accounts payable and sundry liabilities.....	3,678,273	5,670,567
Notes payable to U. S. Treasury:		
For general purposes, including accrued interest.....	1,460,752,973	855,176,299
For specific purposes, non-interest bearing \$8,000,000 at June 30, 1950 and \$1,008,000,000 at June 30, 1949		
Less: Funds in an equal amount delivered to other U. S. Government agencies at Congressional direction	—	—
Dividends payable to U. S. Treasury.....	18,874,005	1,345,185
Net proceeds from liquidation of assets and securities:		
Acquired under national defense, war and reconversion programs—Exhibit C.....	179,718,600	96,422,018
Transferred from Smaller War Plants Corporation—Exhibit D.....	3,550,480	10,961,567
Purchased from Public Works Administrator, Federal Works Agency.....	7,614,575	12,473,196
	<u>1,873,988,906</u>	<u>982,048,832</u>
<b>RESERVES:</b>		
For employees' accrued annual leave.....	4,791,945	4,726,350
For losses under deferred participations in bank loans.....	6,000,000	7,791,059
	<u>10,791,945</u>	<u>12,517,409</u>
<b>CAPITAL STOCK HELD BY U. S. TREASURY.....</b>	<b>100,000,000</b>	<b>100,000,000</b>
<b>SURPLUS:—NOTE F</b>		
Accumulated net income—unreserved.....	577,410,745	558,736,740
Less: Dividends accrued or paid to U. S. Treasury.....	327,410,745	308,736,740
	<u>250,000,000</u>	<u>250,000,000</u>
Reserved for contingencies (including reserve for self-insurance of \$2,000,000 at June 30, 1950).....	14,725,714	6,339,645
	<u>264,725,714</u>	<u>256,339,645</u>
	<u>\$2,103,084,205</u>	<u>\$1,421,432,728</u>

This exhibit is subject to the accompanying "Notes to Financial Statements".

**RECONSTRUCTION FINANCE CORPORATION  
AND SUBSIDIARY**

**EXHIBIT B—COMPARATIVE CONSOLIDATED STATEMENT OF NET INCOME FROM LENDING ACTIVITIES**

	<u>Fiscal Year Ended June 30, 1950</u>	<u>Fiscal Year Ended June 30, 1949</u>
<b>INCOME:</b>		
Interest and dividends earned on loans, securities, etc.:		
Industrial and commercial enterprises . . . . .	\$ 18,507,681	\$ 12,588,183
Railroads, financial institutions, political subdivisions of states and territories and catastrophe loans . . . . .	9,096,504	12,363,926
Insured and guaranteed mortgages . . . . .	37,310,944	13,814,697
Foreign governments . . . . .	4,181,321	5,497,731
Accounts and other notes receivable . . . . .	452,924	40,521
	<u>69,549,374</u>	<u>44,305,058</u>
Income from properties and securities acquired in liquidation of loan indebtedness, including railroad reorganizations—net . . . . .	7,666,590	1,071,915
Income from equity in net assets of Defense Homes Corporation . . . . .	814,567	836,777
Fees on loan participation agreements . . . . .	1,008,358	1,322,040
Premiums earned . . . . .	2,746,562	21,836
Commitment fees and other income . . . . .	6,559,568	1,874,637
	<u>88,345,019</u>	<u>49,432,263</u>
<b>INTEREST AND OTHER EXPENSES:</b>		
Interest on:		
Funds borrowed from U. S. Treasury . . . . .	22,614,041	8,040,633
Funds held for U. S. Treasury and others . . . . .	4,082,612	4,423,341
Administrative expenses . . . . .	21,392,164	17,900,936
Fees for servicing mortgages . . . . .	4,474,169	1,699,949
Other expenses . . . . .	11,065	17,258
	<u>52,574,051</u>	<u>32,082,117</u>
NET INCOME BEFORE PROVISIONS FOR LOSSES . . . . .	35,770,968	17,350,146
<b>PROVISIONS FOR LOSSES</b> . . . . .	8,523,775	9,218,813
NET INCOME . . . . .	<u>\$ 27,247,193</u>	<u>\$ 8,131,333</u>

**ANALYSIS OF ACCUMULATED NET INCOME**

	<u>Unreserved</u>	<u>Reserved for Contingencies</u>
Accumulated net income, June 30, 1949 . . . . .	\$558,736,740	\$ 6,339,645
Income for fiscal year ended June 30, 1950, as above . . . . .	27,247,193	—
Adjustments of prior years income . . . . .	187,119*	—
Transfer to reserve for self-insurance . . . . .	2,000,000*	2,000,000
Transfer from amounts reserved for contingencies . . . . .	1,076,471	1,076,471*
Amount of FNMA income reserved for contingencies . . . . .	7,462,540*	7,462,540
	<u>\$577,410,745</u>	<u>\$14,725,714</u>

\* Deduct

This exhibit is subject to the accompanying "Notes to Financial Statements".



**RECONSTRUCTION FINANCE CORPORATION  
AND SUBSIDIARY**

**EXHIBIT C—STATEMENT OF ACCOUNTABILITY TO U. S. TREASURY FOR NET FUNDS EXPENDED BY RFC  
IN NATIONAL DEFENSE, WAR AND RECONVERSION ACTIVITIES**

**ACCOUNTABILITY AT JUNE 30, 1949:**

Net proceeds realized and payable to U. S. Treasury at June 30, 1949.....	\$ 96,422,018
Assets, at cost, remaining for disposal at June 30, 1949.....	872,024,490
	968,446,508

**RESULTS OF LIQUIDATION FOR FISCAL YEAR 1950:**

Cost of assets transferred to other U. S. Government agencies without reimbursement:

Property, plant, equipment and inventories—net (current year transfers \$6,635,357 less properties returned \$7,737,547).....	\$ 1,102,190*	
Commodities transferred to national stockpile.....	102,539	
Losses on sale and retirement of property, plant and equipment.....	12,916,596	
Final price adjustments on alcohol, after audit, with distillers whose accounts were previously settled on a tentative basis.....	5,918,592	
Administrative expenses.....	2,298,382	
Other losses and costs—net.....	5,182,134	
	25,316,053	
<b>Less:</b>		
Rentals and royalties earned.....	3,109,148	
Recoveries under land grant freight claims.....	5,368,329	
	8,477,477	16,838,576
		951,607,932

**RESULTS OF OPERATIONS OF CONTINUING PROGRAMS FOR PERIOD JULY 1, 1949 THROUGH  
JUNE 30, 1950:**

Loss from synthetic rubber program—Schedule 2.....	1,794,621	
Loss from tin program—Schedule 3.....	10,916,369	
Loss from fiber program—Schedule 4.....	484,509	
Loss from aluminum and magnesium forgings program (Wyman-Gordon Products Corp.).....	13,410	
	13,208,909	
Less: Charges not involving cash outlays (depreciation and interest).....	31,811,651	18,602,742
		970,210,674
<b>INTEREST ALLOWED ON FUNDS UTILIZED IN RFC LENDING ACTIVITIES.....</b>		3,305,079

**PROCEEDS REMITTED TO U. S. TREASURY DECEMBER 31, 1949.....**

**ACCOUNTABILITY AT JUNE 30, 1950.....**

**REPRESENTED BY:**

Net proceeds realized and payable to U. S. Treasury—Exhibit A.....	\$179,718,600
Assets, at cost, remaining for disposal at June 30, 1950—Schedule 1.....	768,797,153
	\$948,515,753

\* Deduct

This exhibit is subject to the accompanying "Notes to Financial Statements".

**RECONSTRUCTION FINANCE CORPORATION  
AND SUBSIDIARY**

**SCHEDULE I—ASSETS, AT COST, ACQUIRED IN CONNECTION WITH NATIONAL DEFENSE, WAR AND  
RECONVERSION ACTIVITIES FOR WHICH THE CORPORATION IS ACCOUNTABLE TO THE U. S. TREASURY**

	June 30, 1950	June 30, 1949
<b>SYNTHETIC RUBBER PROGRAM</b>		
Accounts receivable.....	\$ 14,798,044	\$ 801,813
Inventories:		
Synthetic rubber.....	\$ 6,988,521	\$ 19,760,843
Raw materials, chemicals and processed stock.....	12,540,329	15,609,510
Supplies, spare parts and tools.....	9,722,996	11,098,967
	29,251,846	46,469,320
Property, plant and equipment.....	509,812,366	509,932,066
Prepaid taxes, insurance and other deferred charges.....	734,060	1,726,375
	554,596,316	558,929,574
<b>Total assets—Synthetic rubber program.....</b>	<b>554,596,316</b>	<b>558,929,574</b>
<b>TIN PROGRAM</b>		
Accounts receivable.....	6,385,172	12,184,636
Inventories:		
Refined tin.....	43,083,052	90,795,000
Tin ore.....	21,427,373	44,624,337
By-products.....	353,269	122,994
Operating and other supplies.....	626,819	667,014
	65,490,513	136,209,345
Property, plant and equipment.....	11,631,015	10,046,364
Prepaid taxes, insurance and other deferred charges.....	256,443	60,382
	83,763,143	158,500,727
<b>Total assets—Tin program.....</b>	<b>83,763,143</b>	<b>158,500,727</b>
<b>FIBER PROGRAM</b>		
Accounts receivable.....	1,289,589	789,258
Inventories:		
Abaca.....	672,586	312,693
Agave.....		141,086
Operating and other supplies.....	573,749	622,079
	1,246,335	1,075,858
Plantations operated for the production of abaca and agave fiber.....	11,285,024	12,030,525
Prepaid and deferred charges.....	3,448	294,143
	13,824,396	14,189,784
<b>Total assets—Fiber program.....</b>	<b>13,824,396</b>	<b>14,189,784</b>
<b>ALL OTHER PROGRAMS</b>		
Loans, advances and receivables:		
U. S. Government agencies.....	172,493	822,982
Other (including conditional sales contracts of \$14,689,072 at June 30, 1950 and \$16,204,590 at June 30, 1949).....	38,249,188	52,334,166
	38,421,681	53,157,148
Inventories of strategic materials held for disposal or transfer to national stockpile:		
Metals and minerals.....	174,448	484,537
Natural rubber.....	58,670	71,769
Other strategic materials.....	454,829	1,000,775
	687,947	1,557,081
Property, plants, equipment and related facilities:		
Defense plants and equipment.....	52,134,021	58,079,027
Aluminum and magnesium forgings plant.....	4,267,230	4,213,847
	56,401,251	62,292,874
Other assets:		
Experimental plywood flying boat.....	15,526,463	15,526,463
Inventory of platinum.....	2,126,758	2,126,758
Prefabricated houses and housing materials.....		2,359,956
Miscellaneous assets.....	3,449,198	3,384,125
	21,102,419	23,397,302
<b>Total assets—Other programs.....</b>	<b>116,613,298</b>	<b>140,404,405</b>
<b>Total—EXHIBIT C.....</b>	<b>\$768,797,153</b>	<b>\$872,024,490</b>

This schedule is subject to the accompanying "Notes to Financial Statements".

**RECONSTRUCTION FINANCE CORPORATION  
AND SUBSIDIARY**

**SCHEDULE 2—STATEMENT OF OPERATIONS OF SYNTHETIC RUBBER PROGRAM**

**Fiscal Year Ended June 30, 1950**

<b>INCOME:</b>	
Sales of synthetic rubber.....	\$156,006,135
Revenue from tank car operations.....	211,434
Other income.....	213,022
	156,430,591
 <b>OPERATING COSTS AND EXPENSES:</b>	
Cost of goods sold.....	115,939,875
Provision for depreciation of operating plants and facilities.....	25,522,411
Research and development.....	4,927,586
Excess of sales freight expense over freight charged to customers.....	3,217,194
Storage and handling of finished goods.....	779,214
Administrative expense.....	1,655,686
Reactivation expense.....	110,061
Other expenses and losses.....	147,766
	152,299,793
 <b>INCOME FROM OPERATIONS BEFORE DEDUCTION OF INTEREST ON INVESTMENT.....</b>	 <b>4,130,798</b>
 <b>INTEREST ON U. S. GOVERNMENT FUNDS INVESTED IN NET OPERATING ASSETS.....</b>	 <b>3,331,279</b>
 <b>NET INCOME FROM OPERATIONS.....</b>	 <b>799,519</b>
 <b>EXPENSES FOR MAINTENANCE AND PROTECTION OF STANDBY PLANTS AND FACILITIES (less rental income of \$1,063,984).....</b>	 <b>2,594,140</b>
 <b>NET LOSS—NOTE H.....</b>	 <b>\$ 1,794,621</b>

This schedule is subject to the accompanying "Notes to Financial Statements".

**RECONSTRUCTION FINANCE CORPORATION  
AND SUBSIDIARY**

**SCHEDULE 3—STATEMENT OF OPERATIONS OF TIN PROGRAM**

**Fiscal Year Ended June 30, 1950**

	Smelter operations, Texas City, Texas	Trading operations imported tin	Total
<b>SALES OF REFINED TIN</b> .....	\$79,156,420	\$62,029,787	\$141,186,207
<b>COST OF TIN SOLD:</b>			
Cost of production—longhorn tin:			
Beginning inventory—tin ores and tin in process.....	44,624,337		
Purchases—tin ores.....	43,205,595		
Delivery costs, weighing, assaying, storage, etc.....	1,073,845		
Processing costs.....	5,431,053		
Total.....	94,334,830		
Less:			
Ending inventory—tin ores and tin in process.....	21,427,373		
Tin in process—inventory treated abroad.....	1,106,495	1,106,495	
Cost of production.....	71,800,962		71,800,962
Purchases—imported refined tin.....		29,067,649	
Delivery costs, weighing, assaying, storage, etc.....		520,205	
Re-processing costs of imported refined tin.....		12,737	
Total refined tin acquisitions.....		30,707,088	30,707,088
Beginning inventory—refined tin.....	40,258,269	50,536,731	90,795,000
Total refined tin available.....	112,059,231	81,243,817	193,303,048
Less:			
Ending inventory—refined tin.....	24,418,464	18,664,588	43,083,052
Cost of sales.....	87,640,767	62,579,229	150,219,996
<b>LOSS FROM OPERATIONS</b> .....	<b>\$ 8,484,347</b>	<b>\$ 549,442</b>	<b>9,033,789</b>
<b>SELLING, ADMINISTRATIVE, AND OTHER EXPENSES</b> .....			574,452
<b>LOSS, BEFORE DEPRECIATION AND INTEREST ON INVESTMENT</b> ....			9,608,241
<b>DEPRECIATION</b> .....			472,902
<b>INTEREST ON U. S. GOVERNMENT FUNDS INVESTED IN THE TIN PROGRAM</b> (smelter operations only).....			835,226
<b>NET LOSS—NOTE H</b> .....			<b>\$ 10,916,369</b>

This schedule is subject to the accompanying "Notes to Financial Statements".

**RECONSTRUCTION FINANCE CORPORATION  
AND SUBSIDIARY**

**SCHEDULE 4—STATEMENT OF OPERATIONS OF FIBER PROGRAM**

**Fiscal Year Ended June 30, 1950**

**CENTRAL AMERICAN ABACA**

Sales.....		\$6,736,193
Cost of abaca sold:		
Inventory at beginning of period.....	\$ 312,693	
Cost of production.....	5,923,155	
Ocean freight, storage and handling.....	15,179	
	6,251,027	
Less sundry inventory adjustments.....	60	
Less inventory at end of period.....	672,586	5,578,381
Gross profit.....		1,157,812

**HAITIAN SISAL**

Sales.....		364,967
Cost of sisal sold:		
Inventory at beginning of period.....	131,986	
Cost of production.....	268,774	400,760
Gross profit (or loss*).....		35,793*
Combined gross profit.....		1,122,019

**DEPRECIATION AND NET LOSSES ON RETIREMENTS.....** 1,194,127

**ADMINISTRATIVE AND OTHER EXPENSES.....** 153,580

**INTEREST ON U. S. GOVERNMENT FUNDS INVESTED IN NET OPERATING ASSETS.....** 258,821

**NET LOSS—NOTE H.....** \$ 484,509

This schedule is subject to the accompanying "Notes to Financial Statements".

**RECONSTRUCTION FINANCE CORPORATION  
AND SUBSIDIARY**

**EXHIBIT D—STATEMENT OF ACCOUNTABILITY TO U. S. TREASURY FOR NET ASSETS  
TRANSFERRED FROM SMALLER WAR PLANTS CORPORATION**

**ACCOUNTABILITY AT JUNE 30, 1949:**

Net proceeds realized and payable to U. S. Treasury (less \$145,600,000 previously remitted) . . . . .		\$ 10,961,567
Assets remaining for disposal:		
Loans . . . . .	\$ 5,427,120	
Notes and accounts receivable . . . . .	1,389,314	
Machinery and equipment . . . . .	956,498	
Other assets . . . . .	666,957	8,439,889
		19,401,456

**TRANSACTIONS DURING FISCAL YEAR ENDED JUNE 30, 1950:**

Losses on sale and retirement of property, plant and equipment . . . . .	386,758	
Other losses and costs—net . . . . .	478,244	
Administrative expenses . . . . .	208,322	
		1,073,324

**Less:**

Interest earned . . . . .	176,937	
Fees on loan participation agreements . . . . .	11,569	
Rentals and royalties earned . . . . .	71,369	
		259,875
		813,449

**INTEREST ALLOWED ON FUNDS UTILIZED IN RFC LENDING ACTIVITIES . . . . .** 221,893

**PROCEEDS REMITTED TO U. S. TREASURY JUNE 29, 1950 . . . . .** 18,809,900  
10,000,000

**ACCOUNTABILITY AT JUNE 30, 1950 . . . . .** \$ 8,809,900

**REPRESENTED BY:**

Net proceeds realized and payable to U. S. Treasury—Exhibit A . . . . .		\$ 3,550,480
Assets remaining for disposal:		
Loans . . . . .	\$ 3,458,310	
Notes and accounts receivable . . . . .	963,505	
Machinery and equipment . . . . .	215,838	
Property acquired in liquidation of loan indebtedness . . . . .	621,767	5,259,420
		\$ 8,809,900

This exhibit is subject to the accompanying "Notes to Financial Statements".

**RECONSTRUCTION FINANCE CORPORATION  
AND SUBSIDIARY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1950**

**NOTE A**

The accompanying comparative consolidated balance sheet and related statements of net income set forth the financial position at June 30, 1949, and June 30, 1950, of the Reconstruction Finance Corporation and its subsidiary, the Federal National Mortgage Association, and the consolidated results of their operations for the years ended on such dates.

Assets shown on the balance sheet for both years represent those pertaining to the Corporation's lending activities, in which it has both title and beneficial interest. The unliquidated assets relating to programs for national defense, war and reconversion and assets transferred from Smaller War Plants Corporation are shown on other schedules of this report and are not included in the Corporation's balance sheet, since the net proceeds from the liquidation thereof are required to be paid into miscellaneous receipts of the U. S. Treasury.

**NOTE B**

The Corporation's balance sheet and statement of income and expense of lending activities (Exhibits A and B) are on a consolidated basis and include its wholly owned subsidiary, Federal National Mortgage Association. Statements of the Federal National Mortgage Association are included as a part of Appendix A. Condensed corporate statements of Reconstruction Finance Corporation are shown below:

**Reconstruction Finance Corporation  
Condensed Comparative Balance Sheet**

	<i>June 30, 1950</i>	<i>June 30, 1949</i>
<i>Assets</i>		
Cash .....	\$ 16,861,687	\$ 8,263,272
Loans, Securities and related receivables (Other than insured and guaranteed mortgages and loans to foreign governments), less estimated losses in collections of \$58,000,000 in 1950 and \$89,000,000 in 1949 .....	722,160,840	581,198,233
Insured and guaranteed mortgages and related receivables .....	101,337,201	128,128,133
Loans to foreign governments, including accrued interest .....	128,348,615	174,004,362
Investment in subsidiary—Federal National Mortgage Association .....	1,047,371,875	453,482,603
Other assets .....	66,425,591	62,790,717
	<b>\$2,082,505,809</b>	<b>\$1,407,867,320</b>
<i>Liabilities and Capital</i>		
Liabilities to the public .....	\$ 45,301,429	\$ 61,801,111
Liabilities to Other U. S. Government agencies .....	1,673,988,906	982,048,800
Reserves .....	10,791,945	12,517,409
Capital stock .....	100,000,000	100,000,000
Surplus (including \$2,423,529 in 1950 and \$1,500,000 in 1949—Reserved for contingencies) .....	252,423,529	251,500,000
	<b>\$2,082,505,809</b>	<b>\$1,407,867,320</b>

**Condensed Comparative Statement of Income and Expense**

	<i>Fiscal Year Ended June 30, 1950</i>	<i>Fiscal Year Ended June 30, 1949</i>
<i>Income</i>		
Interest and dividends earned .....	\$52,315,568	\$39,458,437
Other income .....	9,672,814	3,362,333
	<b>\$61,988,382</b>	<b>\$42,820,770</b>
<i>Expense</i>		
Interest expense .....	26,696,653	12,463,974
Administrative expense .....	16,391,530	15,240,309
Other expense .....	591,771	671,694
	<b>43,679,954</b>	<b>28,375,977</b>
Net income before provisions for losses .....	18,308,428	14,444,793
Provisions for losses .....	8,523,775	9,218,813
	<b>9,784,653</b>	<b>5,225,980</b>
Dividend received on capital stock of FNMA held by RFC .....	10,000,000	—
Net income .....	<b>\$19,784,653</b>	<b>\$ 5,225,980</b>

#### NOTE C

In addition to the assets set forth in its financial statements, the Corporation at June 30, 1950, held securities of Seaboard Air Line Railroad Company aggregating \$16,967,496 (par or stated value) for servicing and liquidation for the account of the Treasury Department pursuant to Executive Order 9543. Unremitted income from these securities amounting to \$63,065 at June 30, 1950 was included in the balance sheet as an account payable to the Treasury Department.

#### NOTE D

Pursuant to Public Law 860, 80th Congress, all assets and liabilities of Defense Homes Corporation were transferred to Reconstruction Finance Corporation for liquidation. As shown in Exhibit A, the amount due RFC as of June 30, 1950 was \$32,133,188 which was secured by net assets of Defense Homes Corporation amounting to \$45,012,118 held by RFC for liquidation. Any net assets remaining after the payment of all obligations of Defense Homes Corporation and liquidation costs will be covered into the Treasury as miscellaneous receipts.

#### NOTE E

In addition to the liabilities reflected by the balance sheet the Corporation is responsible for funds collected from mortgagors for the payment of taxes, insurance, etc., by servicing institutions. At June 30, 1950 such funds amounted to \$13,515,968, all of which was on deposit with commercial banks covered by FDIC insurance.

#### NOTE F

The amount of \$14,725,714 reserved for contingencies at June 30, 1950, consists of: (1) accumulated net income of Federal National Mortgage Association aggregating \$12,302,185 reserved for possible losses on mortgages partially guaranteed by Veterans Administration; (2) \$2,000,000 reserved for self-insurance; and (3) \$423,529 reserved for possible losses on other miscellaneous contingencies, principally claims and cases in litigation.

During the current fiscal period the Corporation established the self-insurance reserve referred to, providing for (a) employees fidelity risk, (b) losses from usual causes on administrative property and properties acquired in liquidation of loans, (c) public liability and property damage resulting from the operations of automotive equipment, (d) losses resulting from tort actions committed by corporate personnel or agents, and (e) other forms of public liability.

The major items included in prior years net adjustment of \$187,119 as reflected on Exhibit B under Analysis of Accumulated Net Income are a recovery in the amount of \$468,416 on the balance of a railroad loan previously written off and a reduction of \$894,623, arising from a court decision requiring this Corporation to refund such amount to borrower.

#### NOTE G

The Corporation is a party defendant in legal proceedings, relating to national defense, war and reconversion activities, involving contingent liabilities of approximately \$7,500,000. In addition, the Corporation has contingent liabilities, including claims received from contractors, operators, and others, of approximately \$9,000,000. The Corporation has outstanding commitments relating to the procurement of tin and tin ore not delivered at June 30, 1950, aggregating approximately \$15,500,000.

Any future expenditures on account of such contingent liabilities, for which no provision has been made in the Corporation's statements, will be charged against the retained portion of the net proceeds from liquidation shown in Exhibit A as a liability to the U. S. Treasury.

#### NOTE H

The statements of operations relating to the synthetic rubber, tin and fiber programs (Schedules 2, 3 and 4 respectively) include as operating costs interest on the Government's investments in the net operating assets of these programs. This item has been included for the purpose of reflecting more accurately the net results to the Government of these operations.



## APPENDIX A

SEMI-ANNUAL REPORT—SIX MONTHS' PERIOD ENDED JUNE 30, 1950

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Washington

July 31, 1950

Honorable Franklin D. Richards, Commissioner  
Federal Housing Administration  
Vermont Avenue and K Street, N. W.  
Washington 25, D. C.

Dear Mr. Richards:

In accordance with the provisions of Section 306 of the National Housing Act, as amended, the semi-annual report of the Federal National Mortgage Association covering the period January 1, 1950 through June 30, 1950 is submitted herewith.

The statements, schedules and charts indicated below reflect the operations of the Association for the subject period and, for comparative purposes, certain other periods:

1. Comparative Balance Sheet
2. Comparative Statement of Income and Expense
3. Schedule of Commitments, Purchases, Repayments and Sales—By Sections of Acts
4. Schedule of Commitments to Purchase FHA Insured and VA Guaranteed Mortgages, by Agencies, January through June 1950\*
5. Mortgage Sales Program, by Agencies, August 5, 1949 through June 30, 1950\*
6. Aging of Delinquencies on Mortgages Held at June 30, 1950
7. Percentage of Commitments to Purchase Home Mortgages by Type of Institution, February through June 1950\*
8. Charts showing activities:
  - (a) Commitments—FHA's and VA's\*
  - (b) Unpaid Balances—FHA's and VA's\*
  - (c) Commitments—Number\*
  - (d) Commitments—Amount\*
  - (e) Mortgage Sales Program—FHA's and VA's\*
  - (f) Mortgage Sales Program—VA's\*
  - (g) Mortgage Sales Program—FHA's\*
  - (h) Status of Limitations

As shown by the chart entitled "Status of Limitations" attached, the volume of commitments to purchase FHA insured and VA guaranteed mortgages increased rapidly during January, February and March. On March 20th the funds available to the Association for the purchase of mortgages were almost exhausted, and the Association was obliged to discontinue issuing further commitments until additional funds would be made available by Congressional action. Subsequently, the Housing Act of 1950 (Public Law 475, 81st Congress) was enacted and approved by the President on April 20, 1950. This legislation increased the funds available from \$2.5 billion to \$2.75 billion. It also discontinued the Association's authority to issue commitments for the future purchase of mortgages, with the result that the additional \$250,000,000 provided was available only for purchasing mortgages on an over-the-counter basis.

It was obvious to the Directors and Officers of FNMA that certain controls would have to be imposed upon the manner in which the funds available for the purchase of mortgages were to be utilized for the best interests of all interested parties, i.e., home owners and the mortgagees selling mortgages to the Association. Accordingly, it was determined that the Association would purchase, over-the-counter only, those mortgages upon which the FHA insurance and VA guaranty had been in effect for a period of not less than two months nor more than twelve months. Further, the purchase of FHA insured large-scale mortgages was restricted to those covering military housing (wherever located) and housing projects

\* Not reprinted in this report.

located in Alaska. As a result of these controls new contracts to purchase mortgages during the last quarter of fiscal year 1950 dropped to \$22,215,000, 2% of the dollar volume during the previous quarter.

The Association's net income for the fiscal year 1950, before provision for estimated losses, was \$17,462,540, which, when added to the \$4,839,645 representing the undistributed earned surplus at June 30, 1949, gave the Association a total undistributed earned surplus of \$22,302,185. At June 30, 1949, the \$4,839,645, previously mentioned, was reserved until such time as the Association had gained sufficient experience in the VA mortgage program to provide reasonable reserves for possible losses on these mortgages. Although the experience with respect to possible losses in the VA program was, at June 30, 1950, still quite limited, the cumulated earned surplus of \$22,302,185 appeared more than adequate to provide for possible losses which the Association might incur in the existing portfolio or undisbursed commitments of either VA or FHA mortgages. Accordingly, the Association declared and paid as of June 30, 1950, a dividend of \$10,000,000 on the capital stock held by RFC, retaining \$12,302,185 as undistributed earned surplus reserved for losses and contingencies with respect to the portfolio and undisbursed commitments as of that date.

In keeping with the intensified mortgage sales program, offering lists reflecting the RFC and FNMA mortgage portfolio, broken down by the various classes of mortgages and by State location, are issued periodically to prospective investors. These lists are supplemented by catalogs of individual mortgages by location, which are maintained in the RFC and FNMA field offices for distribution to interested parties. Increased interest in the program is indicated by the gradual monthly advance in the sales figure from \$20.8 million during January to \$70.6 million in June. Of the total number of mortgages sold during the period, 58% were FHA and 42% VA; dollar-wise, FHA sales constituted 64% and VA 36%.

Respectfully submitted,

**JAMES L. DOUGHERTY**  
President

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**COMPARATIVE BALANCE SHEET**

	<i>June 30, 1950</i>	<i>December 31, 1949</i>	<i>June 30, 1949</i>
<b>ASSETS:</b>			
Cash on deposit with RFC.....	\$ 94,473	\$ 315,679	\$ 5,501,656
Mortgages insured by FHA <sup>1</sup> .....	239,957,742	403,257,701	339,422,825
Mortgages guaranteed by Veterans Administration <sup>1</sup> .....	815,674,538	425,095,851	125,072,050
Accrued interest receivable.....	3,385,888	3,264,852	1,471,124
Property acquired by foreclosure or by deed in lieu of foreclosure.....	1,494,036	1,811,305	32,302
Claims against FHA and VA under insurance and guaranty provisions.....	6,391,968	375,714	84,801
Miscellaneous accounts receivable.....	1,033,706	48,957	952,216
Certificates of claim issued by FHA, less estimated losses.....	12,393	11,947	12,693
	<u>\$1,068,044,744</u>	<u>\$834,182,006</u>	<u>\$472,549,667</u>
<b>LIABILITIES:</b>			
Notes payable to RFC, including accrued interest.....	\$1,026,466,348	\$792,375,593	\$437,984,259
Accrued service charges.....	390,859	383,508	166,625
Deposits for taxes, insurance, etc. <sup>2</sup> .....	94,473	315,679	5,501,656
Commitment fee deposits and other liabilities.....	7,790,879	9,218,180	3,057,482
	<u>\$1,034,742,559</u>	<u>\$802,292,960</u>	<u>\$446,710,022</u>
<b>CAPITAL AND SURPLUS:</b>			
Capital stock and paid-in surplus.....	\$ 21,000,000	\$ 21,000,000	\$ 21,000,000
Undistributed earned surplus reserved for losses and contingencies.....	12,302,185	10,889,046	4,839,645
	<u>33,302,185</u>	<u>31,889,046</u>	<u>25,839,645</u>
	<u>\$1,068,044,744</u>	<u>\$834,182,006</u>	<u>\$472,549,667</u>

<sup>1</sup> Includes at June 30, 1950 FHA insured mortgages aggregating \$33,062,943 and VA guaranteed mortgages aggregating \$36,336,885 on which sales offerings have been accepted with closing dates fixed or pending.

<sup>2</sup> Includes only that portion of such deposits held in the general funds of Reconstruction Finance Corporation. In addition, the Association is responsible for the payment by servicing institutions of taxes and insurance, out of funds received from mortgagors and set aside for that purpose, in the amount of \$12,107,094 at June 30, 1950 and \$8,324,046 at December 31, 1949. All such funds are on deposit with commercial banks and are insured by FDIC.

**COMPARATIVE STATEMENT OF INCOME AND EXPENSE**

	<i>Six Months Ended June 30, 1950</i>	<i>Six Months Ended December 31, 1949</i>	<i>Fiscal Year Ended June 30, 1950</i>	<i>Fiscal Year Ended June 30, 1949</i>
<b>INCOME:</b>				
Interest earned.....	\$19,614,662	\$12,926,207	\$32,540,869	\$ 8,579,839
Commitment fees earned.....	3,745,241	2,760,419	6,505,660	1,753,836
Premiums earned.....	2,380,284	234,024	2,614,308	—
Other income.....	(61)	309	248	519
<b>Total income.....</b>	<u>\$25,740,126</u>	<u>\$15,920,959</u>	<u>\$41,661,085</u>	<u>\$10,334,194</u>
<b>EXPENSES AND LOSSES:</b>				
Interest expense.....	\$ 9,200,039	\$ 6,104,409	\$15,304,448	\$ 3,722,701
Administrative expense.....	2,775,603	2,225,031	5,000,634	2,660,627
Fees for servicing mortgages.....	2,347,318	1,542,118	3,889,436	1,045,490
Other losses and expenses.....	4,027	—	4,027	23
<b>Total expenses and losses.....</b>	<u>\$14,326,987</u>	<u>\$ 9,871,558</u>	<u>\$24,198,545</u>	<u>\$ 7,428,841</u>
<b>NET INCOME.....</b>	<u>\$11,413,139</u>	<u>\$ 6,049,401</u>	<u>\$17,462,540</u>	<u>\$ 2,905,353</u>

**ANALYSIS OF ACCUMULATED NET INCOME**

Accumulated net income—June 30, 1949.....	\$25,339,645
Income for fiscal year ended June 30, 1950.....	17,462,540
	<u>\$42,802,185</u>
Dividends paid to RFC.....	\$30,500,000
Reserved for losses and contingencies.....	12,302,185
	<u>\$42,802,185</u>

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**SCHEDULE OF COMMITMENTS, PURCHASES, REPAYMENTS AND SALES ON FHA INSURED AND VA GUARANTEED MORTGAGES**  
**PERIOD JULY 1, 1949 THROUGH JUNE 30, 1950**

*(Dollar Figures Are in Thousands)*

	Commitments made to purchase mortgages		Commitments cancelled		Commitments undisbursed end of period		Purchases		Repayments and other reductions		Sales		Mortgages held at end of period	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
<b>Period July 1, 1949 thru Dec. 31, 1949:</b>														
TOTAL FHA INSURED MORTGAGES.....	13,640	\$ 209,090	3,987	\$49,662	16,132	\$346,871	12,528	\$94,625	1,143	\$11,423	1,734	\$19,366	57,643	\$403,258
Section 203, NHA.....	11,640	71,624	2,811	18,996	14,804	91,710	7,229	41,562	179	1,472	924	4,921	13,165	72,563
Section 207, NHA.....	1	91			1	91								
Section 603, NHA.....	1,804	13,181	1,118	7,790	898	6,906	5,261	39,301	964	9,898	797	5,712	44,401	310,571
Section 608, NHA.....	195	124,194	58	22,876	429	248,164	38	13,762		53	13	8,733	77	20,124
TOTAL VA GUARANTEED MORTGAGES..	82,594	590,158	1,810	13,164	64,934	477,232	45,404	304,619	117	4,208	224	387	67,583	425,096
Section 501, SRA (Home).....	73,952	572,315	944	11,949	59,048	465,253	39,202	294,640	82	3,907	13	101	54,451	406,551
Section 501, SRA (Multiple Dwell.)..	247	7,386		25	157	5,017	90	2,344		17			91	2,436
Section 502, SRA.....	70	429	1	7	47	298	33	202		2			42	254
Section 505(a), SRA.....	8,325	10,028	865	1,183	5,682	6,664	6,079	7,433	35	282	211	286	12,999	15,855
Total.....	96,234	799,248	5,797	62,826	81,066	824,103	57,932	399,244	1,260	15,631	1,958	19,753	125,226	828,354
<b>Period Jan. 1, 1950 thru June 30, 1950:</b>														
TOTAL FHA INSURED MORTGAGES.....	3,851	42,641	7,775	109,572	7,044	243,673	5,164	36,266	989	12,892	25,066	186,674	36,752	239,958
Section 203, NHA.....	3,742	23,291	7,342	46,125	6,685	42,521	4,519	26,355	165	1,776	7,259	42,605	10,260	54,537
Section 207, NHA.....					1	91								
Section 603, NHA.....	78	690	226	1,694	123	979	627	4,924	819	9,010	17,751	131,831	26,458	174,655
Section 608, NHA.....	31	18,660	207	61,753	235	200,082	18	4,987	5	2,106	56	12,238	34	10,766
TOTAL VA GUARANTEED MORTGAGES..	119,587	942,583	7,725	52,155	106,860	856,772	69,936	510,888	329	15,445	17,859	104,865	119,331	815,674
Section 501, SRA (Home).....	116,180	936,553	5,337	48,447	103,257	849,111	66,634	504,248	218	14,878	12,607	97,953	108,260	797,969
Section 501, SRA (Multiple Dwell.)..	(14)	1,551	26	1,050	83	3,256	34	2,262		58	19	743	106	3,897
Section 502, SRA.....	51	311	1	21	24	155	73	433	5	33			110	653
Section 505(a), SRA.....	3,370	4,168	2,361	2,637	3,496	4,250	3,195	3,945	106	476	5,233	6,169	10,855	13,155
Total.....	123,438	985,224	15,500	161,727	113,904	1,100,445	75,100	547,154	1,318	28,337	42,925	291,539	156,083	1,055,632
<b>Period July 1, 1949 thru June 30, 1950:</b>														
TOTAL FHA INSURED MORTGAGES.....	17,491	251,731	11,762	159,234	7,044	243,673	17,692	130,891	2,132	24,315	26,800	206,040	36,752	239,958
Section 203, NHA.....	15,382	94,915	10,153	65,121	6,685	42,521	11,748	67,917	344	3,248	8,183	47,526	10,260	54,537
Section 207, NHA.....	1	91			1	91								
Section 603, NHA.....	1,882	13,871	1,344	9,484	123	979	5,888	44,225	1,783	18,908	18,548	137,543	26,458	174,655
Section 608, NHA.....	226	142,854	265	84,629	235	200,082	56	18,749	5	2,159	69	20,971	34	10,766
TOTAL VA GUARANTEED MORTGAGES..	202,181	1,532,741	9,535	65,319	106,860	856,772	115,340	815,507	446	19,653	18,083	105,252	119,331	815,674
Section 501, SRA (Home).....	190,132	1,508,868	6,281	60,396	103,257	849,111	105,836	798,888	300	18,785	12,620	98,054	108,260	797,969
Section 501, SRA (Multiple Dwell.)..	233	8,937	26	1,075	83	3,256	124	4,606		75	19	743	106	3,897
Section 502, SRA.....	121	740	2	28	24	155	106	635	5	35			110	653
Section 505(a), SRA.....	11,695	14,196	3,226	3,820	3,496	4,250	9,274	11,378	141	758	5,444	6,455	10,855	13,155
Total.....	219,672	\$1,784,472	21,297	\$224,553	113,904	\$1,100,445	133,032	\$946,398	2,578	\$43,968	44,883	\$311,292	156,083	\$1,055,632

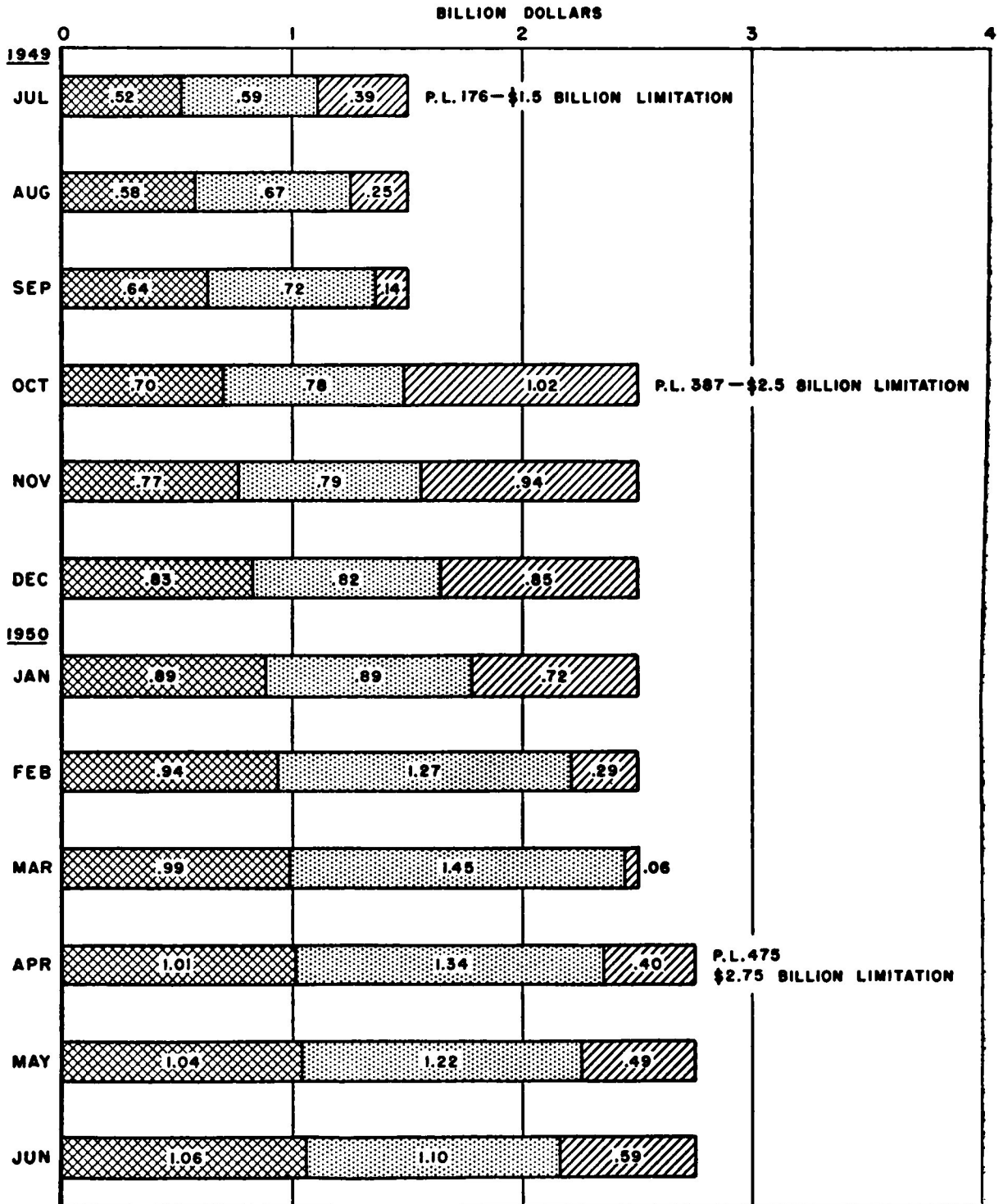
**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**AGING OF DELINQUENCIES ON MORTGAGES HELD AT JUNE 30, 1950**

*(Dollar Figures Are in Thousands)*

	Total Outstanding		Current		Total Delinquent and/or in Liq.		Delinquencies							
							1 to 3 Months		3 to 6 Months		6 Months & Over		In Liquidation	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
TOTAL FHA INSURED MORTGAGES.	36,752	\$239,958	34,288	\$219,093	2,464	\$20,865	1,544	\$9,173	456	\$5,293	27	\$3,838	437	\$2,561
<i>Percent</i> .....	100.	100.	93.30	91.30	6.70	8.70	4.20	3.82	1.24	2.21	.07	1.60	1.19	1.07
Section 203, NHA .....	10,260	54,537	9,772	51,951	488	2,586	327	1,715	44	255	6	34	111	582
<i>Percent</i> .....	100.	100.	95.24	95.26	4.76	4.74	3.19	3.14	0.43	0.47	0.06	0.06	1.08	1.07
Section 603, NHA .....	26,458	174,655	24,487	161,045	1,971	13,610	1,217	7,458	411	4,082	17	91	326	1,979
<i>Percent</i> .....	100.	100.	92.55	92.21	7.45	7.79	4.60	4.27	1.56	2.34	0.06	0.05	1.23	1.13
Section 608, NHA .....	34	10,766	29	6,097	5	4,669			1	956	4	3,713		
<i>Percent</i> .....	100.	100.	85.29	56.63	14.71	43.37			2.94	8.88	11.77	34.49		
TOTAL VA GUARANTEED MORTGAGES.	119,331	815,674	116,520	797,112	2,811	18,562	2,253	15,199	328	2,002	31	193	199	1,168
<i>Percent</i> .....	100.	100.	97.64	97.72	2.36	2.28	1.89	1.87	0.27	0.25	0.03	0.02	0.17	0.14
Section 501, SRA (Home) .....	108,260	797,969	105,850	779,963	2,410	18,006	1,973	14,784	262	1,923	25	186	150	1,113
<i>Percent</i> .....	100.	100.	97.77	97.74	2.23	2.26	1.83	1.86	0.24	0.24	0.02	0.02	0.14	0.14
Section 501, SRA (Mul. Dwell) ..	106	3,897	104	3,819	2	78	2	78						
<i>Percent</i> .....	100.	100.	98.11	98.00	1.89	2.00	1.89	2.00						
Section 502, SRA .....	110	653	110	653										
<i>Percent</i> .....	100.	100.	100.	100.										
Section 505(a), SRA .....	10,855	13,155	10,456	12,677	399	478	278	337	66	79	6	7	49	55
<i>Percent</i> .....	100.	100.	96.32	96.37	3.68	3.63	2.56	2.56	0.61	0.60	0.06	0.05	0.45	0.42
TOTAL MORTGAGES .....	156,083	1,055,632	150,808	1,016,205	5,275	39,427	3,797	24,372	784	7,295	58	4,031	636	3,729
<i>Percent</i> .....	100.	100.	96.62	96.27	3.38	3.73	2.43	2.31	0.50	0.69	0.04	0.38	0.41	0.35

FEDERAL NATIONAL MORTGAGE ASSOCIATION  
**STATUS OF LIMITATIONS**  
 JULY 1949 THRU JUNE 1950  
 MONTH END BALANCES

 MORTGAGES IN PORTFOLIO    
  UNDISBURSED COMMITMENTS    
  AVAILABLE AUTHORITY



## APPENDIX B

### REPORT ON SYNTHETIC RUBBER OPERATIONS FOR FISCAL YEAR 1950

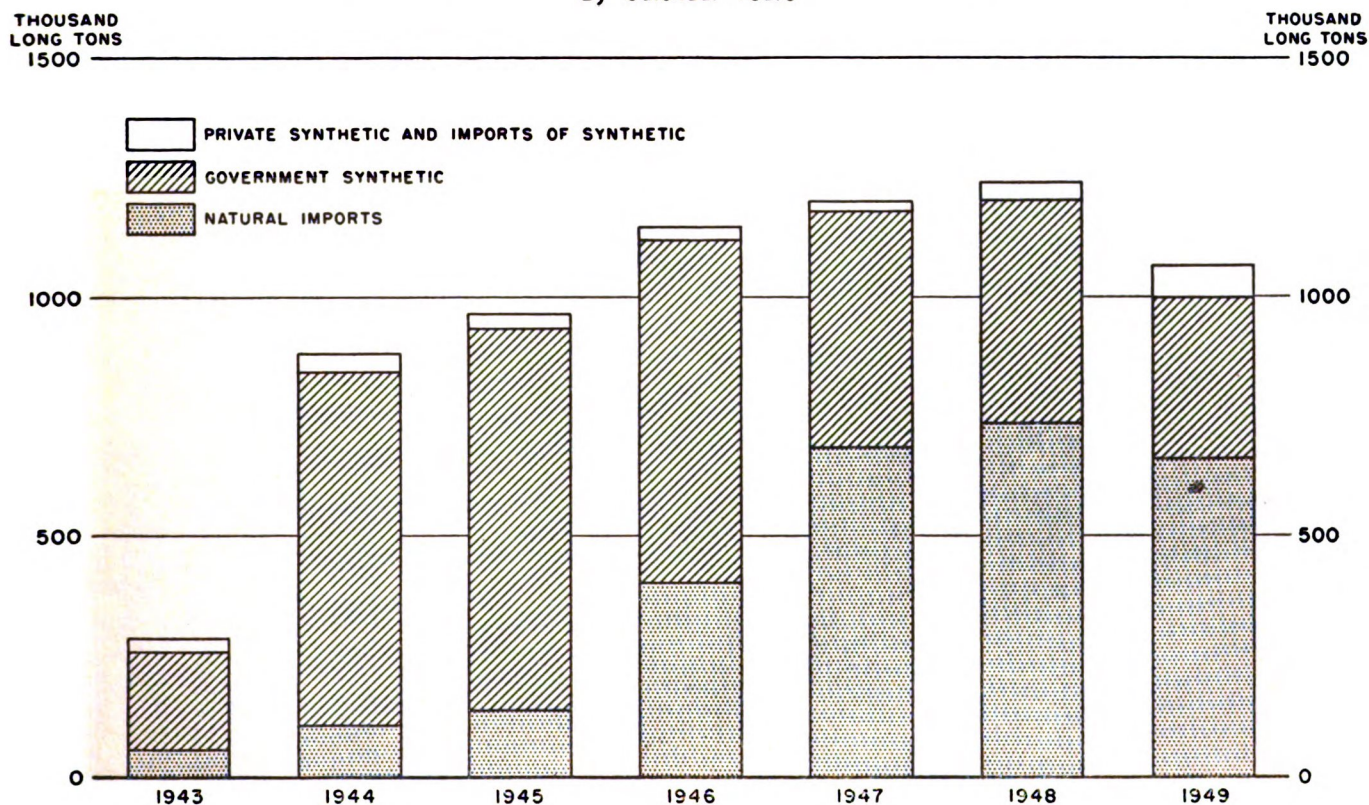
#### I. Introduction

The entry of the U. S. Government into the field of synthetic rubber production in May, 1941, marked the beginning of a period of spectacular growth of the American synthetic rubber industry. This industry, then only in its infancy, was expanded to supply most of the rubber requirements of the nation's war-time economy when supplies of natural rubber were all but completely cut off. Through the collaboration of Government and private industry, production was increased from the 1941 level of less than 10,000 long tons to the peak achieved in the early part of 1945 which approximated an annual output of 1,000,000 long tons.

After the cessation of hostilities, natural rubber became available to this country in increasing quantities and an era of price competition between synthetic and natural rubber began. This era has been marked by numerous fluctuations but in general the demand for synthetic rubber fell until it reached its lowest level in the early part of fiscal year 1950, at which time the price of No. 1 RSS natural rubber had dropped to 16½¢ cents per pound. In the third and fourth quarters of the fiscal year the demand for synthetic rubber, riding on the strength of a booming national economy, particularly in the automobile and related industries, with an attendant natural rubber price increase, rose to the point that facilities in production were unable to satisfy all the demand. While, in the first quarter of the year, a butadiene plant and a GR-S plant located in Los Angeles, California, were shut down because they were high-cost

#### NEW SUPPLY OF RUBBER TO THE UNITED STATES

By Calendar Years



plants and their production was not needed, steps were being taken at the end of the year to reactivate facilities to increase production to meet the new demand. The reactivation program has received completely new emphasis since the end of the fiscal year 1950, to meet the demands for rubber production which have been brought about by the national defense emergency. GR-S and butyl production rates varied, respectively, from 24,982 and 5,123 L.T. in July 1949, to 18,124 and 4,323 L.T. in January, 1950, and to 30,146 and 4,615 L.T. by the end of the year. Presently, facilities are being reactivated to

increase production by March 1951 to approximately 63,000 LT/mo. of GR-S and 6,250 LT/mo. of butyl. This expansion is in large part necessitated by the decision of the Munitions Board to increase the rate of natural rubber stockpiling. Natural rubber otherwise available to the consuming industry will, under the expanded program and increased natural rubber stockpiling, be replaced by synthetic. Thus the synthetic rubber program, having served in the previous four years to avert a serious postwar shortage of rubber, continues its vital national security function of supplying this nation's economy with an alternate source of rubber. The quality of synthetic rubber has been notably improved, and in many products, with the important exception of large-size truck and bus tires, it is considered equal or superior to natural rubber.

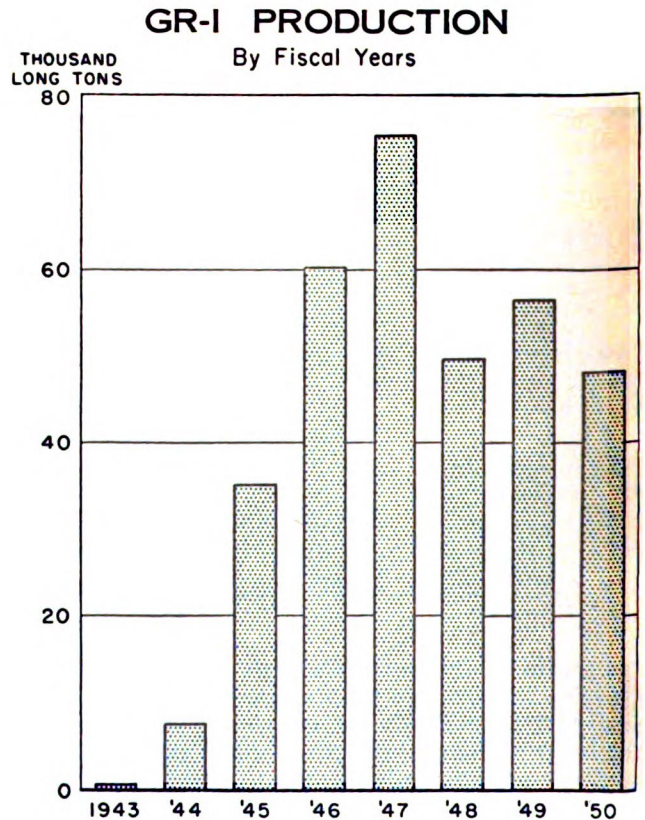
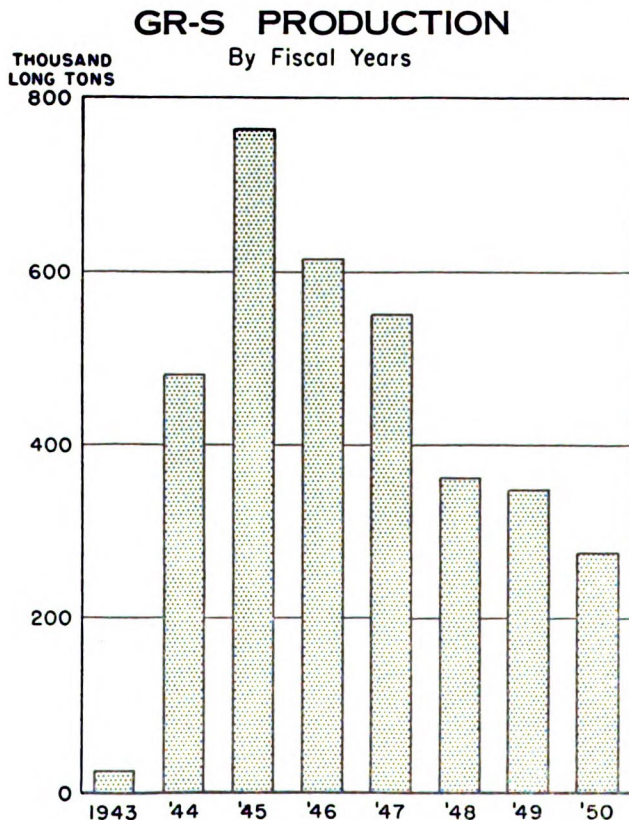
## II. Legislative Authority and Responsibilities

The Corporation continued to carry out its synthetic rubber activities in accordance with the provisions of Public Law 469 (The Rubber Act of 1948) enacted by the 80th Congress and the President's Executive Order 9942, dated April 1, 1948. Public Law 475, 81st Congress, has extended the earlier legislation, and the authority for operation of the program has now been extended to June 30, 1952. The principal responsibilities and functions of the Corporation under this authority are listed below.

1. *Production of Synthetic Rubber*—The Rubber Act provides that production of synthetic rubber from facilities operated by the Government or private persons shall be not less than 200,000 long tons per annum of general purpose rubber and not less than 21,667 long tons of special purpose rubber, of which at least 15,000 long tons shall be of a type suitable for use in pneumatic inner tubes. The Corporation is charged with the responsibility for the production of these quantities of synthetic rubber, and of such additional quantities for voluntary use as it deems practicable.

2. *Maintenance of Standby Facilities*—The Rubber Act requires that there shall be maintained at all times within the United States active or standby rubber-producing facilities having an annual rated production capacity of not less than 600,000 long tons of general purpose rubber and not less than 65,000 tons of special purpose rubber, of which at least 45,000 tons shall be of a type suitable for use in pneumatic inner tubes. In addition to its operating facilities, the Corporation is responsible for the maintenance of a sufficient number of plants in standby to meet the foregoing requirements.

3. *Research and Development*—The Corporation is authorized to undertake research and development activities necessary to maintain a technologically advanced domestic rubber-producing industry.





4. *Lease and Sale of Facilities*—The Corporation is authorized to sell or lease surplus facilities not necessary to fulfill the requirements of the Act, as indicated in Paragraph 2, provided that they shall not be used to produce rubber for mandatory consumption, and obsolete property not required for the production of the rated capacity of the facility in which the property is located.

5. *Study of Disposal of Government-owned Synthetic Rubber Facilities*—The Corporation was directed to investigate the problems associated with the disposal to private industry of Government-owned rubber facilities and to report its findings to the President and to the Congress on or before April 1, 1949. This it did in a report entitled "Report With Respect To Development of a Program for Disposal of Government-Owned Rubber-Producing Facilities."

### **III. Manufacturing and Standby Activities**

The Corporation retained on June 30, 1950, in operation or standby, 28 of the original 51 facilities in the program. These included 13 copolymer (GR-S) plants having a combined annual design capacity of 600,000 long tons, 2 butyl plants with an aggregate design capacity of 68,000 long tons, 10 butadiene plants, 1 styrene plant, 1 chemical plant and 1 development laboratory. At the end of the year, there were engaged in active production 17 of these facilities, consisting of 8 copolymer plants, 2 butyl plants, 4 butadiene plants, 1 styrene plant, 1 chemical plant and 1 development laboratory. Eleven complete plants and the unused portion of two other plants were held in standby.

During the fiscal year 1950, Government-owned plants produced 322,356 long tons of synthetic rubber, including 274,343 tons of GR-S (general purpose rubber) and 48,013 tons of GR-I (special purpose rubber, principally for pneumatic inner tubes). This represented 28.8% of the domestic natural and synthetic rubber supply of 1,120,000 long tons. The Government also produced component materials for its synthetic rubber manufacture which were not available in sufficient quantities from private industry. The major items of materials produced were 209,271 short tons of butadiene from basic raw materials and 17,858 tons of styrene.

During the year, conversion of facilities at the copolymer plants to enable the production of approximately 183,000 long tons per year of "cold rubber" was completed at a cost of \$4,700,000. This rubber possesses outstanding abrasion-resistant properties which make it markedly superior to natural rubber in tire treads. Seven of the eight copolymer plants in operation were producing cold rubber during the year and a total of 105,441 long tons of this material was manufactured. Three of the copolymer plants produced black masterbatch rubber and the total production of this material was 85,654 long tons, including 29,471 tons of carbon black pigment. A portion of this black masterbatch rubber was also produced by the cold process and this quantity is included in the figure shown above for cold rubber production. Two of the copolymer plants produced a total of 24,136 long tons of GR-S latex during the year. This material is becoming of increased importance for the manufacture of foam sponge rubber and other special products.

The versatility of the various plants was demonstrated during the year when they were forced to curtail operations sharply throughout part of the year and then to increase production to maximum capacity during the latter months. The copolymer plants produced in commercial quantities more than 60 different types of GR-S rubber during the year. Each of these types was requested by a consumer and many of the types were "tailor-made" to fit a certain end use.

At the beginning of the fiscal year, the total Government synthetic rubber stocks were approximately 64,000 long tons, including 57,500 tons of GR-S and 6,500 tons of butyl rubber. As of June 30, 1950, these stocks had decreased to a total of approximately 23,754 long tons, including 20,265 tons of GR-S and 3,489 tons of butyl.

At the close of the year, about 6,400 people were employed in active Government-owned synthetic rubber plants and about 330 persons were engaged in standby activities. The Washington Office of the RFC employed 180 people directly engaged in synthetic rubber activities. Total employment in active and standby plants was 11 percent less than at the end of fiscal year 1949 and was approximately 30 percent of the wartime peak.

### **IV. Research Activities**

During the year, research and development work was performed for the Corporation by eight universities, seven industrial companies, two independent research institutes, and one Government agency. These organizations conduct three phases of research—fundamental (about 10%), applied (30%), and developmental (60%). The Corporation formulates the over-all research plan for each year, and, with the aid of numerous interrelated committees, develops detailed plans to fit the policy framework. It is also the responsibility of the Corporation to maintain a proper relationship between the three phases of the program and to expedite a continuous exchange of research findings.

Research work continued to be directed toward developing a better general-purpose rubber and the improving and developing of specialty polymers. Work was conducted on both regular GR-S and "cold rubber" polymerization recipes. Several hundred experimental polymers were produced in the various pilot plants, most of which were evaluated by the laboratories of rubber-processing plants or made into tires and evaluated with road tests. One phase of the development work, which was expanded markedly compared with prior years, was that directed toward development of a polymer for use in heavy-duty truck tires which would be equal or superior to natural rubber. The inadequacy of synthetic rubber in such heavy-duty service is the principal reason that present types of GR-S cannot be considered as entirely satisfactory replacements for natural as a general-purpose rubber.

The expenditure for research and development in fiscal 1950 was \$4,900,000, which is 3.2 percent of the total operating costs and expenses for the entire program. This expenditure was about 35 percent higher in 1950 than in 1949 with practically all of the increase being spent on the heavy-duty tire development work.

#### ***V. Plant Disposal***

No complete surplus plants were disposed of during the year, but certain equipment from two surplus plants was sold. At the end of the year two butadiene plants, one copolymer plant and two chemical plants were surplus to the program but not sold.

#### ***VI. Statement of Operations***

A financial statement presenting a summary of the operations of the Corporation in the field of synthetic rubber appears in Schedule 2 of this report.

Although the production of synthetic rubber in fiscal 1950 was only 77 percent of 1949 production and the sales were only 93 percent of those in 1949, the cost per ton of goods sold, excluding interest, plant amortization, research expenses, Washington Office administrative expenses, and other non-operating charges, was 3.6 percent less than in 1949. The excluded items aggregated 6.7 percent less in 1950, but the cost per ton of goods sold was slightly higher in 1950 and resulted in a decrease in net income from \$1,653,110 in 1949 to \$799,519.

Since depreciation of plants and facilities does not represent current out-of-pocket costs, the recovery, excluding standby costs, to the Government on its investment in the synthetic rubber operation amounted to \$26,321,930 during the year. This recovery was 16.8 percent of the total income for the year and 9.3 percent of the investment in the operating plants.

Expenses for "Maintenance and Protection of Standby Plants and Facilities" amounted to \$2,594,140. This was \$239,024 more than that expended in 1949 and was attributable to placing two additional plants in standby during the year.

## APPENDIX C

### REPORT ON THE GOVERNMENT-OWNED TIN SMELTER AT TEXAS CITY, TEXAS AND THE PROGRAM FOR PURCHASE AND SALE OF TIN METAL IN THE UNITED STATES

Six Months Ended June 30, 1950 and Fiscal Year 1950

#### **I. Introduction**

Public Law 125, 80th Congress, as amended, representing a joint resolution to strengthen the common defense and to meet industrial needs for tin by providing for the maintenance of a domestic tin smelting industry, directs the Reconstruction Finance Corporation to render a full report to Congress on all its activities under this joint resolution not later than December 31, 1947, and at the end of each six months thereafter.

In accordance with this directive, the last report, covering the six months ended December 31, 1949, was submitted on February 13, 1950. The present report covers the six months ended June 30, 1950, and for comparative purposes, the fiscal year 1950.

#### **II. Legislative Authority and Responsibilities**

Public Law 125, 80th Congress, authorizes the RFC, while it has succession, (1) to buy, sell and transport tin and tin ore and concentrates; (2) to improve, develop, maintain and operate by lease or otherwise the Government-owned tin smelter at Texas City, Texas; (3) to finance research in tin smelting and processing; and (4) to do all other things necessary to the accomplishment of the foregoing until June 30, 1949. Such authority was extended for two years, to June 30, 1951, by Public Law 824, 80th Congress, and for an additional five years, to June 30, 1956, by Public Law 723, 81st Congress.

#### **III. Purchase and Sale of Tin Metal**

A world shortage of tin existed after the war and continued until the latter part of 1949. During this period, domestic controls were exercised by successive Government agencies through regulations on the importation, sale and use of tin. Such controls were relaxed in August, 1949 and practically terminated on December 1, 1949, by the Department of Commerce. Throughout the period of such controls, the RFC, with a few minor exceptions, was the sole importer and supplier of tin for the United States. Tin metal purchased abroad, together with tin produced at the Texas City smelter, was transferred to the national stockpile or sold, pursuant to allocations by the proper authorities to meet industrial needs.

Since the termination of controls, the RFC has continued to make its stocks available to industry as needed. It necessarily has taken industry some time to re-establish a normal flow of tin metal to this country. The RFC sold 4,443 long tons of tin metal to industry during the first six months of 1950 and is currently selling about 500 tons per month, equivalent to about 9% of total primary tin consumption. Since RFC's selling terms are more stringent than those of tin brokers, it is expected that sales to industry will continue to decline. For that reason, the agreement with Tin Sales Corporation, which had been handling the sale of RFC tin to industry from offices in New York, was terminated as of July 8, 1950. Thereafter, sales of RFC tin have been handled direct by the Washington Office.

All tin in excess of requirements for industry and working stock is being transferred to the National Stockpile. Pursuant to its authority under the Stockpiling Act, Public Law 520, 79th Congress, the Department of Commerce has directed RFC to withhold from transfer to the National Stockpile a stock of 20,000 long tons of tin metal as a reserve for civilian deficiency. RFC continues to hold this reserve.

All foreign tin metal purchased by RFC during the fiscal year 1950 was procured for resale to the Federal Supply Service.

#### **IV. Ore Procurement and Stocks**

Ore receipts at the smelter amounted to 26,705 tons containing 10,698 tons of tin during the last half of fiscal year 1950 and 67,981 tons containing 29,507 tons of tin during the entire fiscal year. The following table shows a breakdown of these receipts by country and grade:

	January-June 1950				Fiscal Year 1950			
	Tons Ore	% Tin	Tons Tin	% Total Tin Content	Tons Ore	% Tin	Tons Tin	% Total Tin Content
Bolivian								
High Grade.....	3,614	59.55	2,152	33.3	9,494	59.69	5,667	37.0
Med. Grade.....	2,869	47.86	1,373	21.2	5,657	46.88	2,652	17.3
Low Grade.....	14,332	20.56	2,946	45.5	33,125	21.10	6,991	45.7
Total.....	20,815	31.09	6,471	100.0	48,276	31.71	15,310	100.0
Bolivian.....	20,815	31.09	6,471	60.5	48,276	31.71	15,310	51.9
N.E.I.....	3,004	72.94	2,191	20.5	12,685	73.25	9,292	31.5
Siam.....	2,291	73.90	1,693	15.8	4,519	73.78	3,334	11.3
Miscel.....	595	57.65	343	3.2	2,501	62.81	1,571	5.3
Total.....	26,705	40.06	10,698	100.0	67,981	43.40	29,507	100.0

The purchase of tin concentrates in sufficient volume and kind to assure an economical operation at the smelter has always been a major problem. The major source, Bolivia, was badly affected by the decline in the price of tin at the close of 1949 due to the fact that a large portion of the obligations of her tin producers is in a dollar area. Other foreign producers not only have a lower production cost but have obligations mainly in devalued foreign currency and consequently did not feel the full impact of the decline.

The former Bolivian contract expired December 31, 1949, and negotiations for a 1950 contract continued for many months without success. However, agreement on terms was finally reached and a contract for 1950 production was entered into as of July 31, 1950. In the meantime, purchases from Bolivia by RFC during the first six months of the year were limited to a few spot contracts. While some 1950 production has been sold in Europe and in the United States to others than the RFC, by far the major part has accumulated in South American ports and has been made available under the new contract. However, total deliveries in calendar year 1950 are not expected to reach the 18,250 tons of tin content received at the smelter in 1949.

Purchase contracts covering the calendar year 1950 have been signed for substantial tonnages of tin concentrates from Indonesia (9,000 to 12,000 tons contained tin) and the Belgian Congo (1,500 to 3,000 tons contained tin). The contracts give RFC the option to renew for 1951 if exercised before October 15, 1950, with an additional option for renewal for 1952 under certain conditions.

RFC continues to keep a representative in Thailand for the purchase of tin concentrates. The uncertain price structure for tin during the early months of 1950, together with keen competition from the nearby Malayan smelters, has prevented the representative from receiving the desired proportion of Siamese production during the first six months of 1950. Some improvement is looked for during the second half of the year but receipts of Siamese concentrates at the smelter during the calendar year 1950 are not expected to equal the 3,679 tons of tin content received in 1949.

Other purchases are being made in small amounts as concentrates are made available from Alaska, Mexico, China and Portugal, with the United States supplying an insignificant amount of tin-bearing materials produced as by-products from other operations.

As of June 30, 1950, tin ore and tin bearing material held by RFC, including ore in transit to the United States from foreign sources, ore stored at the smelter, material in active process and inactive inventories, such as low grade rejects and acid pond slimes, had an estimated tin content of 14,331 long tons.

#### V. Smelter Operations and Results

The smelter continues to be operated by Tin Processing Corporation under a cost-plus-fixed-fee agreement with RFC which extends to June 30, 1951.

Smelter production of tin bullion amounted to 15,504 long tons during the last half of fiscal year 1950 and 33,084 long tons during the full fiscal year. Tonnage and percentages of the different grades of tin making up this production are shown in the following table:

	<u>3 Star Grade A</u>	<u>2 Star Grade B</u>	<u>2 Star Grade C</u>	<u>2 Star Grade D</u>	<u>1 Star Grade E</u>	<u>Copan Alloy Metal</u>	<u>Total Bullion</u>
<i>Jan.-June 1950</i>							
Long Tons.....	10,840	4,364	—	—	52	248	15,504
Percent.....	69.92	28.15	—	—	0.34	1.59	100.00
<i>Fiscal Year 1950</i>							
Long Tons.....	20,916	7,830	2,163	233	1,694	248	33,084
Percent.....	63.22	23.67	6.54	0.70	5.12	0.75	100.00

These figures do not include 3,186 long tons for the last half of fiscal year 1950 and 4,927 tons for the full fiscal year of tin bullion resulting from the retreatment and upgrading of G and other grades of metal previously produced at the smelter and of off-grade foreign tin purchased in former years. If consideration is given to this upgrading of previously produced lower grades of tin, the percentage of Grade "A" metal produced for the period January-June 1950 would be increased to nearly 73%.

The above table indicates that only 52 tons of Grade E bullion was produced in the January-June 1950 period. This tonnage, produced in January, may be the last Grade E material produced, since efforts are being made to eliminate its further production.

Beginning in January 1950, a new alloy metal, with the trade name "Copan," has been under production. Copan has an average analysis which should make it acceptable for use by babbitt manufacturers and its production in limited quantity makes it possible to eliminate the production of F and G grade metals. Contrary to the preliminary analysis given in the February 13, 1950 report, this alloy does not contain any aluminum.

With the elimination of Grades E, F and G from production, it is expected that practically all future production will be concentrated into 3 Star, 2 Star and Copan grade metals.

The relation between Longhorn Smelter production, tin imports and United States consumption is shown in the following table. The data therein pertaining to U. S. imports and U. S. consumption coincide with figures published by the International Tin Study Group.

	<i>Long Tons Tin Metal (Bullion)</i>		
	<u>U. S. Imports</u>	<u>Longhorn Smelter Production</u>	<u>U. S. Consumption</u>
1942.....	26,753	15,695	56,288
1943.....	11,919	20,727	46,253
1944.....	13,338	30,619	59,156
1945.....	9,375	40,591	55,642
1946.....	15,520	43,468	54,627
1947.....	24,899	33,292	59,166
1948.....	49,196	36,677	59,863
1949.....	60,222	36,064	50,120
Total 8 years.....	211,222	257,133	441,115
January-June 1950.....	42,509	15,504	33,628
Total 8½ years.....	253,731	272,637	474,743

Mention has been made in former reports of certain inactive inventories, consisting of low-grade rejects and slimes, which were accumulated during the war and reconversion period when maximum production of high-grade metal was most essential. The low-grade rejects and most of the slimes resulted from dressing plant operations which produced a high-grade, easily smelted concentrate and two low-grade products known as rejects and slimes. The rejects consist of coarser material containing approximately 20% tin while the slimes consist of finer material containing approximately 25% tin. Both low-grade products carry some impurities, contained in the original Bolivian ore, which acid treatment had failed to remove, and both are difficult to smelt into high-grade metal due to their chemical composition. In order to promote maximum production, both products were put aside for future treatment during the period of tin scarcity. Toward the end of 1947, the policy was to treat all rejects and slimes as produced, and dressing plant operations were discontinued shortly thereafter.

At the time of their maximum accumulation in 1947, there were approximately 27,100 long dry tons of rejects containing 5,385 long tons of tin. By steadily reclaiming and processing this material as furnace capacity permitted and by shipment of 7,313 long tons to Capper Pass smelter in England for treatment, this inventory has been reduced to 8,357 long tons of rejects containing 1,801 tons of tin as of June 30, 1950. Treatment of this material is continuing at the rate of approximately 600 long tons per month.

At the end of 1947, there were approximately 6,707 long dry tons of dressing plant slimes containing 1,722 tons of tin, stored in six ponds. This inventory has not been added to or reclaimed for treatment and remains the same as of June 30, 1950. A seventh pond containing 5,318 long dry tons of slimes with 1,122 tons of tin content has had a slight increase in tonnage since the end of 1947.

The treatment of these slimes has been deferred until the waste acid plant is in regular operation as it is expected that by-products will be partially recovered in this plant.

Construction of the waste acid plant was completed in April but, as can be expected in the case of a new plant of original design, a considerable period of trial operations and extensive adjustments and changes will be necessary before operation will be on a steady basis.

Total cost of the plant to June 30, 1950, amounted to \$2,879,990, and further capital expenditures will be necessary during the current breaking-in period. When placed in regular operation, this plant is expected to treat the waste acid resulting from current smelter operations and gradually dispose of approximately 100,000,000 gallons of waste acid now stored in ponds adjacent to the smelter, with the recovery of a commercial grade hydrochloric acid which can be used by the smelter or sold. Additionally, the plant will recover, in the form of a cement, various metal by-products of considerable value, notably silver. It should be pointed out, however, that the waste acid plant was planned primarily for disposal of waste liquor and not as a source of revenue. Should the smelter be shut down, the waste acid plant would have to be continued in operation until all the waste acid stored in ponds is treated and the hazard represented by such acid eliminated.

Recent plant operations have shown greater efficiency because of installation of new or improved equipment and mechanization wherever possible. Such improvements are expected to pay for themselves within a reasonable time and have helped keep processing costs in line in spite of increased labor and supply costs.

Constant research has brought out new metallurgical processes and improved products. For example, the use of the small separate dross furnace, mentioned in previous reports, has reduced the impurities carried in the regular smelter circuit, produced what is believed to be a marketable alloy metal (Copan) in place of undesirable F and G grades of bullion, and simplified the list of refined products.

High tungsten ores formerly caused formation on reverberatory hearths of tin-tungsten furnace bottoms which were costly to remove and difficult to treat for recovery of tungsten and tin. Special treatment of such ores for extraction of tungsten prior to smelting has decreased materially the formation of such tin-tungsten furnace bottoms and made possible the production of a synthetic scheelite which, upon nodulizing, is suitable for the national stockpile.

Actual expenditures for capital improvements, including the waste acid plant, amounted to \$733,981 during the six months ending June 30, 1950 and \$1,721,589 during the full fiscal year.

The Statement of Operations of the Tin Program (Schedule 3) reflects the results of a combination of (a) operation of the smelter and (b) sale, at a price materially below the purchase price, of inventory acquired in earlier years. During the year, the inventory of refined tin and tin contained in ores and concentrates declined by 30,500 tons, as the result of sales to American industry, transfer to the national stockpile, and negligible receipts of ores from Bolivia during the last half of the fiscal year. Except for tin or tin ores purchased during the year, the Corporation's inventory was purchased at a price well in excess of the average sales price of 93 $\frac{1}{4}$  cents per pound which prevailed during the year. A portion of the beginning inventory was purchased at the earlier price level of \$1.03, whereas sales were made during the year at prices as low as 73 $\frac{1}{4}$  cents per pound. Accordingly, even though the smelter operation is on an approximate break-even basis, the Statement of Operations shows a net loss from the program of \$10,916,369, substantially all of which resulted from the price fluctuation referred to; this loss compares with net income of \$7,980,857 for the fiscal year 1949 in which sales were being made from inventories acquired in earlier periods at prices below the market level prevailing during that year. Selling, administrative and other expenses, as well as depreciation and interest charges, remained fairly constant for the two years.

Operating costs before depreciation, metal loss and by-product credits totaled \$2,806,667 for the six months ending June 30, 1950, and \$5,500,173 for the full fiscal year. Both total and unit operating costs for the fiscal year 1950 were somewhat higher than those for 1949 due to increased labor and supply costs, lower grade of ore treated and greater tonnage of secondary material treated. Percentage recovery of tin metal was slightly lower in fiscal year 1950 compared with 1949, due also to the lower grade of ore treated and the greater tonnages of secondary material treated.

#### **VI. Research and Capital Improvements**

As has already been indicated, improvements in operations and metallurgical processes are constantly being made as the result of research and study. Expenditures for research alone amounted to \$33,672 during the six months ending June 30, 1950, and \$64,371 during the full fiscal year.

Research, tests and investigations are carried out by the technical staff of Tin Processing Corporation. The RFC maintains at the smelter a competent metallurgical engineer as Consultant who discusses proposed improvements with the smelter management and makes recommendations to the RFC. In addition, the RFC periodically employs one of the country's leading metallurgists to make an independent survey of the smelter. His reports and recommendations have contributed a great deal to the efficiency of operations.

Actual expenditures for plant improvements, aside from the waste acid plant, amounted to \$172,019 during the six months ending June 30, 1950 and \$285,784 during the full fiscal year. Improvements during the six months' period ending June 30, 1950, included work on the following major projects:

<i>Project</i>	<i>Purpose</i>
Circulating of plant water.	Water conservation.
Furnace charge mixing equipment.	Automatic ore feeding.
Increased cottrell capacity.	Increased tin recovery from furnace gases.
Bag burner dust collector.	Elimination of stack losses.
Extension spectograph.	Rapid analyses, with minimum cost, of daily control samples.
Water chlorination.	Automatic purification of drinking water.
Dress press.	Minimize tin loss and danger of arsine poisoning.
Tungsten leaching.	Recovery of synthetic scheelite and preservation of furnace hearths.

## APPENDIX D

### REPORT ON ABACA OPERATIONS FOR FISCAL YEAR 1950

#### I. Introduction

Since January 3, 1942, the Reconstruction Finance Corporation has been engaged in the production of abaca fiber in Central America as a part of the war-defense program of the Government. Prior to the enactment of Public Law 683, 81st Congress—signed by the President on August 10, 1950, but effective April 1, 1950—the operations in abaca were conducted under Sections 5d(3) and 12 of the Reconstruction Finance Corporation Act, as amended, and the War Mobilization and Reconversion Act of 1944. Public Law 683 provides for the continuation and expansion of the operations for a period of not to exceed ten years; subject to this limitation, the Reconstruction Finance Corporation has been directed by the President to continue the operations until further notice. Section 7 of Public Law 683 requires that a report on the activities under the Act be submitted to the Congress within six months after the close of each fiscal year. The following report is submitted for fiscal year 1950.

#### II. History

Under the conditions existing during a national emergency involving military operations, there are certain strategic or critical materials which must be obtained, if possible, with but little consideration as to their cost. Abaca (or manila) fiber, a raw material used in the manufacture of articles for military operations, is an outstanding example of a strategic natural commodity.

Most of the abaca fiber used in the United States is made into rope and cables for ships—for which use it is particularly adapted, having the necessary high tensile strength, durability, lightness, and resistance to sea water. Abaca rope absorbs water slowly and dries quickly, thus preventing, to a large extent, the rotting which ordinarily is so destructive to other types of ropes in marine use. The most important uses of abaca rope are for hawsers, mooring lines, and heavy towing lines. Tarred abaca rope of smaller sizes is used on ships, in rope for rigging, belt rope for sail edges, lanyards from deck to mast, and boat-falls for life-boats.

The finest quality abaca fibers are used in the making of well-drilling cables and are treated with a lubricant to minimize wear. Steel cables are being used in increasing quantities for well-drilling purposes, but, even so, they are spliced at regular intervals with small lengths of abaca rope to supply necessary resilience. Abaca ropes are used for fishing traps, and for purse lines for seine fishing. In long power drives, where the cost of leather belting would be excessive, abaca rope serves a useful purpose. Painters and builders prefer abaca rope. It is also used on farms, especially in the form of binder twine, although not in great volume.

Abaca fiber which is not suitable for manufacture into rope or other textile products may, because of the high cellulose content of the abaca plant, be used as a source of paper pulp in the production of paper products.

At the time of the entry of the United States into World War II, the entire supply of abaca fiber was cut off by the Japanese occupation of the Philippine Islands, which, up to that time, produced 95% of the world's supply of abaca—the remainder being produced in the Dutch East Indies. Fortunately, the introduction of abaca into tropical America on an experimental basis some years prior to the war provided to some extent for an emergency of this character.

Complete records of the attempts that have been made to grow abaca in countries other than the Philippines are not available, but many such attempts have been made. With but few exceptions, these experiments were unsuccessful. However, the United Fruit Company, which, in conjunction with the Department of Agriculture, had been conducting experiments in Central America for approximately 20 years had, by 1941, approximately 2,000 acres of abaca under cultivation in Panama, proving that abaca could successfully be grown outside of the Philippines. But the United Fruit Company had had no success in the development of efficient machinery for the large scale processing of abaca on a profitable basis and it was occupied in solving this problem when the war broke out. The war changed the outlook and approach to abaca production in the Western Hemisphere from a commercial to a defense basis and on December 12, 1941, the Reconstruction Finance Corporation, acting through its subsidiary Defense Supplies Corporation, and acting pursuant to Section 5d(3) of the Reconstruction Finance Corporation Act, as amended, opened negotiations with the United Fruit Company for the installation of U. S. Government-owned abaca plantations in the Western Hemisphere. These negotiations culminated in operating contracts dated January 3, 1942. Rootstock from United Fruit's farm in Panama was used



in the plantings under these contracts and all of the projects envisaged by the contracts were under cultivation to abaca by the end of 1943. The various plantations and their acreages were as follows:

<i>Plantations</i>	<i>Acres</i>
Changuinola, Panama .....	6,461
Good Hope, Costa Rica.....	6,000
Monte Verde, Costa Rica.....	5,500
Guaymas, Honduras .....	5,716
Los Andes, Guatemala.....	5,000

Although, in the perspective of the conduct of a program for war purposes, very little thought was given to the question of cost, all prior experience seemed to indicate that the operation of the projects could not be carried on profitably on a dollar and cents basis. However, subsequent experience has proved that abaca can be produced in this hemisphere on a commercial basis and that, at the same time, the security interest of the country can be served.

From the date of the surrender of Japan, operations under the contracts of January 3, 1942, were continued under authority of the War Mobilization and Reconversion Act of 1944 and Section 12 of the Reconstruction Finance Corporation Act, as amended. On August 10, 1950, the President signed a bill (Public Law 683—81st Congress) which authorized the continuation of production of abaca in the Western Hemisphere by the United States for a period not to exceed 10 years, with provision for expansion by Presidential direction of the total number of acres under cultivation to 50,000 acres at any one time, including the approximately 25,000 acres currently under cultivation. On the same date, the President issued a directive authorizing the Reconstruction Finance Corporation to operate the program until further notice, subject to the 10-year limitation mentioned above.

### **III. Management Agreement for Existing Operations**

The availability of United Fruit Company lands and facilities, such as warehouses, hospitals, power plants, telephone and transportation systems, commissaries, port facilities, etc., and of that corporation's large organization of men highly trained in agricultural operations in tropical America resulted in the expeditious installation of the plantations under the contracts of January 3, 1942, at considerable savings in material and money in the light of the emergency conditions existing at the time.

Under the January 3, 1942, contracts, the United Fruit Company agreed to manage the projects and, in addition, to make certain of its lands in Panama, Honduras, Guatemala and Costa Rica available for the production of abaca. The United Fruit Company received no fee for its services or for the use of the land during the term of the original contracts and was reimbursed only for expenses which it incurred for the account of the Government in the operation of the projects and for the use of the facilities supplied by it.

This agreement expired December 31, 1948, and new contracts were entered into effective January 1, 1949, which provide for continuing operations for 5 years, subject to cancellation on 30 days' notice. The contracts also provide for an annual management fee of \$1.00 per month for each acre under cultivation at the beginning of each month, or 15% of the net profit from operations before depreciation, domestic administrative expense and interest, whichever is greater. Under the agreements, cost of operations is reimbursed to United Fruit Company, and it also receives a stipulated rental fee for use of its facilities.

### **IV. Marketing**

The marketing of U. S. Government-produced abaca is currently conducted on the basis of competitive bids by the buyers. Offerings are made weekly and acceptances are governed by the prevailing world abaca market. The average price received for abaca during fiscal year 1950 was \$0.2367 per pound.

### **V. Operating Experience**

From inception of operations through June 30, 1950, expenditures under the U. S. Government fiber program have amounted to \$43,367,551. Sales proceeds during such period have been \$30,995,713, leaving an investment of \$12,371,838 yet to be recovered. However, there was an estimated \$13,268,939 in assets on hand at the projects at June 30, 1950, consisting of a net value of capital facilities and inventories of \$6,268,939 (\$12,534,569 in capital facilities and inventories, less a reserve for depreciation on capital facilities of \$6,265,630) plus an estimated net value of \$7,000,000 of abaca standing in the fields. It should be noted that the present unrecovered investment of \$12,371,838 includes a loss, estimated at \$3,500,000, which was sustained during the period when OPA maximum selling prices were in effect and the Corporation was required to subsidize the production of abaca to that extent.

From inception of operations through June 30, 1950, a total of 171,427,997 pounds of fiber have been produced at an over-all cost of \$30,811,006, or \$0.1797 per pound. In considering these production figures, it should be noted that a period of from 24 to 30 months is required from the time abaca is planted until it reaches maturity and is harvested, hence no production from the plantations was realized until late 1944, although initial preparation for the installation of the Government-owned plantations was begun in January 1942 and the cultivations were completed by the end of 1943.

During fiscal year 1950, production of abaca at the plantations was 30,061,600 lbs. Profits, before depreciation, interest and domestic administrative expense, for the period were \$1,157,812. The total annual operating cost of the plantations is fairly constant regardless of the total quantity of fiber produced. Therefore, profits are contingent primarily upon weather conditions and types of soil and labor, which affect the yield. It has been RFC's experience that cost and yield per acre vary somewhat from plantation to plantation. Constant effort is being exerted to establish uniform practices and procedures in the operations.

## ***VI. Expansion***

A survey party, headed by Department of Agriculture personnel on a reimbursable basis, is now in Central America at the Corporation's request for the purpose of developing recommendations for expansion of the plantations pursuant to Public Law 683. The agricultural and engineering aspects of the selection of the additional lands to be planted to abaca require consideration of the type of soil, drainage conditions, availability of transportation, labor, and quantity and distribution of rainfall. The search for land where desirable conditions in this regard prevail to a reasonable degree will require a number of months for proper investigation and survey work. While the existence or non-existence of most of the desired conditions can be ascertained within a short period of time, the presence of a well distributed rainfall may be most difficult to ascertain because in many of the areas where possible expansion might take place no official or reliable rainfall records have been maintained. To the extent possible, additional acreage adjacent to the existing plantations sufficient to bring each existing plantation to top efficiency will be sought. No comprehensive survey has been made to this time with respect to the location of suitable land in the Western Hemisphere for expansion purposes because of lack of funds and authority for the work prior to the enactment of Public Law 683. However, it is believed that suitable land to bring the total acreage up to 50,000 acres, as provided in Public Law 683, will be found and that the major part of the acreage necessary for the expansion will be under cultivation within 2 or 3 years.

## ***VII. Estimated Cost of Expansion***

The cost of establishing an abaca plantation will vary to a considerable degree, depending upon the natural qualities of the area selected for the installation and the improvements which are required to put it to use for the cultivation of abaca. Some of the considerations involved are the accessibility of the land to existing transportation, the number and size of drainage canals, bridges, etc., which have to be provided, and the cost of labor in the particular area. A good system of mule roads must be provided and, in countries where heavy rainfall is experienced and the soil is such that extra precautions must be taken to protect it against mud, extensive ballast is required, which will increase the cost. For example, in the installation of the present Guatemala plantation, consisting of approximately 5,000 acres, conditions were such as to require the construction of approximately 36 railroad bridges, 33 miles of track, 316 miles of drainage canals and ditches and 325 miles of mule roads. The bridges range in length from 15 to 135 feet. It is obvious, therefore, that it is difficult to project, with any degree of accuracy, the exact cost which will be incurred in the installation of new plantations until a knowledge is had of the areas selected for their sites.

The Guatemala plantation was the last established and its installation cost of approximately \$408 per acre was the lowest. Since, however, the installation of the Guatemala plantation was made in 1943, it is estimated that installation cost for abaca cultivations in today's market should be calculated at approximately 175% of the original cost at Guatemala. In addition, a factor of approximately 50% of present cost will be required to construct facilities of the character of those which were already present at the Guatemala plantation and which therefore, were not included as items of cost in the figure of \$408 per acre. On the basis of adjusted original cost at Guatemala, it is estimated that the cost of installation, cultivation and maintenance to the first harvest in an expansion of the program would approximate \$1,000 per acre. For the continuation and expansion of the present plantations, Public Law 683 provides funds in the amount of \$35,000,000 outstanding at any one time, plus the net value of the assets of the program existing at the effective date of the Act.

### VIII. Estimated Production

Because of the hazards associated with tropical agriculture, it is difficult, if not impossible, to make any accurate long-range estimates of future production. However, on the assumption that weather and labor conditions and other variable factors involved in an operation of this nature will not change materially from past experience and assuming that the intensive fertilization program under way will revive the present plantations to the extent expected, it is estimated that the following fiber yield may be anticipated within the next three fiscal years:

1951 .....	30,000,000 lbs.
1952 .....	35,000,000 lbs.
1953 .....	35,000,000 lbs.

### IX. Research

In order to achieve efficiency in the continuance and expansion of the present abaca plantations and to attain the maximum in quality and quantity of fiber, it will be necessary to make careful studies to ascertain the best types of soils, the best plants for particular soils, the most advantageous culture to be given the plants, and the causes and cures of plant diseases. It is anticipated that cost of research of this character will approximate \$100,000 per year. Arrangements have been concluded with the Department of Agriculture to perform this phase of research for the Corporation on a reimbursable basis.

The machinery now used in the decortication of the fiber from the plantations was developed under wartime conditions by converting machinery designed for similar use on other fibers. Abaca stalk contains a potential of 8% of fiber and recovery is approximately 3½% by the machines now in use. Although the percentage of recovery is now much greater than ever before achieved in the cleaning of abaca, it is felt that a greater yield is possible, and research into the improvement of the decorticating machinery is planned.

At present, after the stripping of the fiber, the remainder of the abaca plant goes to waste. The fiber included in this waste would have a ready market for paper manufacture and other uses if improvements could be effected in machinery used in its processing and present costs of its production thereby reduced. All previous efforts to reclaim the fiber from the waste for marketing have been abandoned because of prohibitive costs. The waste is now disposed of at some cost through dumping on lands adjacent to the plantations. Research is planned for a means of more efficient recovery of the fiber from the waste and for a discovery of possible additional uses and markets for the waste.

It is estimated that the cost of the research with respect to the development of improved decorticating and waste reclamation machinery and the ascertainment of better possibilities for the marketing of waste will approximate \$150,000 annually for at least the next 2 years.

## APPENDIX E

### RECONSTRUCTION FINANCE CORPORATION CREATION, PURPOSE AND LEGISLATIVE AUTHORITY

The Reconstruction Finance Corporation was created by Act of Congress approved January 22, 1932, and began operations on February 2, 1932. At the outset, the Corporation's major functions were the extension of credit to agriculture, commerce, and industry through loans to banks and other financial institutions, insurance companies, agricultural credit agencies, and railroads. From time to time, as economic conditions changed, the lending authority of the Corporation was broadened to include loans to business enterprises, loans to public agencies for the financing of public projects, and other lending functions. During the national defense and war periods the Corporation was assigned additional functions to enable it to assist in carrying out various programs essential to the national defense and war effort.

Under the provisions of the Reconstruction Finance Corporation Act, as presently amended,<sup>1</sup> the Corporation, in order to aid in financing agriculture, commerce, and industry, to encourage small business, to help in maintaining the economic stability of the country, and to assist in promoting maximum employment and production, is authorized, within specified limitations:

- (a) To purchase the obligations of and make loans, directly or in participation with banks, to business enterprises, including railroads and air carriers;
- (b) to make loans to financial institutions;
- (c) to subscribe for or make loans upon the non-assessable stock of insurance companies, or to purchase capital notes or debentures of insurance companies, in an aggregate amount outstanding at any one time not in excess of \$15,000,000;
- (d) to purchase the securities and obligations of or make loans to states, municipalities, political subdivisions of states, and public agencies or instrumentalities thereof, in order to aid in financing public projects, the aggregate amount of such loans or purchases outstanding at any one time for construction purposes not to exceed \$200,000,000; and
- (e) to make such loans as the Corporation may determine to be necessary or appropriate because of floods or other catastrophes, in an aggregate amount outstanding at any one time not to exceed \$40,000,000.

The total amount of loans, purchases, and commitments made after June 30, 1947, in the exercise of the foregoing powers, may not exceed \$3,750,000,000 outstanding at any one time. The lending activities of the Corporation are financed by capital stock in the amount of \$100,000,000, held by the Secretary of the Treasury, the retention of accumulated earned surplus in the amount of \$250,000,000, and borrowings from the Secretary of the Treasury as needed to carry out its functions. Within six months after the end of each fiscal year all surplus in excess of \$250,000,000 must be paid over to the Secretary of the Treasury as miscellaneous receipts. Under existing law, the succession of the Corporation terminates on June 30, 1956.

The Federal National Mortgage Association, a subsidiary of the Reconstruction Finance Corporation until September 7, 1950,<sup>2</sup> is authorized to purchase home mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration.<sup>3</sup> The Association is also authorized, pursuant to the Alaska Housing Act,<sup>4</sup> to make real estate loans secured by property located in Alaska if such loans are insured by the Federal Housing Administration. The total amount of purchases, loans, and commitments made by the Association may not exceed \$2,750,000,000 outstanding at any one time.

In order to aid housing production, the Reconstruction Finance Corporation was authorized under the Housing Act of 1948,<sup>5</sup> to make loans to and purchase the obligations of any business enterprise (not to exceed \$50,000,000 outstanding at any one time) for the purpose of providing financial assistance for the production of prefabricated houses or prefabricated housing components, or for large-scale modernized site construction. Effective September 7, 1950, this function was transferred to the Housing and Home Finance Agency, pursuant to Reorganization Plan No. 23 of 1950.

In addition to its lending activities the Corporation is engaged in:

- (a) The manufacture and sale of synthetic rubber, pursuant to the Rubber Act of 1948;<sup>6</sup>

- (b) the refining of tin ores and concentrates at the Texas City tin smelter, the purchase of refined tin, and the sale to private industry or the transfer to the national stockpile of that portion in excess of a working inventory, as provided by Joint Resolution approved June 28, 1947, as amended;<sup>7</sup>
- (c) the production and sale of abaca, pursuant to the Abaca Production Act of 1950;<sup>8</sup> and
- (d) liquidation of the affairs of the Defense Plant Corporation, Metals Reserve Company, Rubber Reserve Company, Defense Supplies Corporation, Disaster Loan Corporation, Smaller War Plants Corporation, Defense Homes Corporation, the RFC Mortgage Company, U. S. Commercial Company, and War Damage Corporation.

The synthetic rubber, tin, and abaca programs and the liquidation of national defense, war and reconversion activities are financed with funds held by the Corporation acquired through such activities, pursuant to the provisions of The Government Corporations Appropriation Act, 1949,<sup>9</sup> and net recoveries from these activities are deposited in the Treasury as miscellaneous receipts.

<sup>1</sup> Reconstruction Finance Corporation Act, as amended by Joint Resolution approved June 30, 1947 (61 Stat. 202), Act approved May 25, 1948 (Public Law 548, 80th Cong.), Act approved June 29, 1948 (Public Law 825, 80th Cong.), Act approved July 1, 1948 (Public Law 864, 80th Cong.), Joint Resolution approved July 19, 1949 (Public Law 176, 81st Cong.), Joint Resolution approved October 25, 1949 (Public Law 387, 81st Cong.), Act approved April 20, 1950 (Public Law 475, 81st Cong.).

<sup>2</sup> Effective September 7, 1950, Federal National Mortgage Association was transferred to the Housing and Home Finance Agency, pursuant to Reorganization Plan No. 22 of 1950.

<sup>3</sup> Title III of the National Housing Act, as amended by Act approved July 1, 1948 (Public Law 864, 80th Cong.), Act of August 10, 1948 (Public Law 901, 80th Cong.), Joint Resolution approved July 19, 1949 (Public Law 176, 81st Cong.), Joint Resolution approved October 25, 1949 (Public Law 387, 81st Cong.), Act approved April 20, 1950 (Public Law 475, 81st Cong.).

<sup>4</sup> Act approved April 23, 1949 (Public Law 52, 81st Cong.).

<sup>5</sup> Act approved August 10, 1948 (Public Law 901, 80th Cong.).

<sup>6</sup> Act approved March 31, 1948 (Public Law 469, 80th Cong.), as amended by Act approved June 24, 1950 (Public Law 575, 81st Cong.), and Executive Order 9942, April 1, 1948 (13 F.R. 1823).

<sup>7</sup> Public Law 125, 80th Cong., as amended by Act approved June 29, 1948 (Public Law 824, 80th Cong.), Act approved June 30, 1949 (Public Law 148, 81st Cong.), Act approved August 21, 1950 (Public Law 728, 81st Cong.).

<sup>8</sup> Public Law 688, 81st Cong., approved August 10, 1950.

<sup>9</sup> Public Law 860, 80th Cong., approved June 30, 1948.