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CIRCULAR No. 11
OF THE
RECONSTRUCTION
FINANCE CORPORATION

INFORMATION REGARDING LOANS TO ASSIST IN THE
NATIONAL RECOVERY ADMINISTRATION PROGRAM



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1. LOANS TO ASSIST IN THE NATIONAL RECOVERY PROGRAM.

For the purpose of assisting business and industry in cooperation with the National Recovery Administration program, the Reconstruction Finance Corporation will make loans to banks, trust companies, and mortgage-loan companies for periods of 6 months or less, with interest at the rate of 3 percent per annum, to enable the borrowing banks, trust companies, and mortgage-loan companies to make loans—

- (a) For the purchase of materials for manufacture;
- (b) To cover the actual cost of labor in the manufacture and processing of material; or
- (c) To assist merchants and others especially affected by the National Recovery Administration program.

2. CONDITIONS.

Such loans will be made by the Reconstruction Finance Corporation on the following conditions:

- (a) That the proceeds thereof be reloaned by the applicants¹ for any part of 6 months at a rate of interest not in excess of 5 percent per annum;
- (b) That the notes of borrowers,¹ tendered to the Reconstruction Finance Corporation as collateral, be secured by a valid assignment of an unconditional order for the manufactured product, and/or mortgages, real or chattel, on plant, equipment, real estate, raw material or manufactured product, or in any other manner acceptable to the lending bank, trust company, or mortgage-loan company and to the Reconstruction Finance Corporation;
- (c) That satisfactory evidence be furnished that the borrowers, whose notes are tendered as collateral security, have complied with all provisions of the applicable approved code of fair competition for the trade or industry, or subdivision thereof concerned, or if there be no approved code of fair competition for the trade or industry of such borrower, then with the provisions of the President's Reemployment Agreement promulgated under authority of section 4 (a) of the National Industrial Recovery Act; and
- (d) That the application be accompanied by satisfactory evidence that the borrower to whom the proceeds of the loan will be lent will use the funds for one or more of the purposes outlined in (a), (b), and (c) in paragraph 1 hereof.

Loans described in paragraphs 1 and 2 are of a short-term character and for the purpose, essentially, of providing working capital.

¹ The term "applicants" is used herein to refer to the banks, trust companies and mortgage-loan companies borrowing from Reconstruction Finance Corporation, and the term "borrowers" to refer to those obtaining loans from such applicants.

3. OTHER LOANS TO ASSIST RECOVERY.

General purpose.

The Corporation will also make other loans of a sound character for which the necessity can be definitely established. Should the local banks or other usual financial channels be unwilling to undertake this type of financing, it is suggested that local mortgage-loan companies, either already existing or newly organized, be used for making such loans. The Corporation wants to make its facilities available quite generally in order to assist in carrying out the recovery program. Such facilities are available, through mortgage-loan companies or other eligible applicants, for any sound and worthy purpose in keeping with the law.

While it is not the intention to restrict the general purpose for which the facilities of this Corporation may be used, as outlined in the preceding paragraph, nevertheless in order to answer inquiries which have been received from numerous sources, it is necessary to make some comment upon loans to finance construction and loans to finance real estate development projects.

Construction loans.

While loans to finance repairs will be considered, loans will not be encouraged which are intended to provide for new construction unless a real need for such new construction can be established. The test as to whether such construction will be approved will be whether satisfactory evidence can be produced showing a need and a volume of business, actual or assured, sufficient to warrant such financing and to assure repayment within a reasonable time. It should also be shown that the transaction would not result in unnecessarily duplicating or adding to existing facilities.

Financing real estate development projects.

It is not deemed desirable, unless special circumstances are definitely established, to make loans for financing real estate development projects.

Terms.

Loans made by the Reconstruction Finance Corporation to such mortgage-loan companies (or banks or other eligible borrowing institutions) for financing this type of borrowing will bear interest at the rate of 4 percent per annum and may have a maturity up to 3 years. The applicant will not be permitted to charge borrowers to whom the proceeds of the Corporation's advances are loaned a greater rate of interest than 6 percent per annum. Loans made by mortgage-loan companies (or other eligible borrowing institutions) under paragraph 3 must be secured in a manner acceptable to the applicant and to the Reconstruction Finance Corporation. While the maturity of such loans is not limited to a 6 months' period as is the case of loans under paragraphs 1 and 2, the borrowers obtaining such loans must be able to demonstrate their ability to liquidate them within a reasonable period of time out of profits or through the sale or liquidation of assets or by means of a refunding program.

4. MORTGAGE-LOAN COMPANIES.

Definition.

The term "mortgage-loan company" as used in this circular includes corporations having charter power to make loans secured by either real estate or chattel mortgages (including loans for industrial purposes), the principal business of which is the making of such loans. The term "chattel mortgages" shall not include conditional sales agreements and installment sales contracts or contracts of a similar character. The chattel mortgages should be on property owned by and in the possession of the borrower from the mortgage-loan company. If in certain communities credit requirements cannot be met by banks and it is deemed necessary or advisable to employ an existing mortgage-loan company or to organize a new mortgage-loan company, it is contemplated that, as a general rule, such company will be a community enterprise and that it will hold its facilities open, not to just one or two borrowers, but to all worthy borrowers in the community requiring the type of accommodations discussed in this circular, or at least to all such worthy borrowers of a sufficiently large group.

The Reconstruction Finance Corporation does not intend to make loans to a "one purpose" mortgage-loan company, that is, a mortgage-loan company which has been organized to serve a single borrower.

Capital.

Generally speaking, the Reconstruction Finance Corporation will make loans to such mortgage-loan companies, when properly secured, up to five times the capital of such companies. This ratio may be varied or increased, however, depending upon the character of the loans made by the mortgage-loan companies. The capital of the mortgage-loan companies must be represented by cash or assets of sound value.

Organization.

Where new mortgage-loan companies are to be organized, it is suggested that where practicable they be organized as community or trade enterprises. The prospective borrowers themselves may subscribe in whole or in part for the capital of such mortgage-loan companies. It is hoped that local banks, clearing houses, and chambers of commerce will assist in the organization of such mortgage-loan companies, either by subscribing for or assisting in obtaining capital, or by grouping borrowers and facilitating contacts among them in order that such borrowers may cooperate in the organization of the mortgage-loan company.

5. SECURITY REQUIREMENTS.

Section 5 of the Reconstruction Finance Corporation Act requires that all loans made thereunder shall be fully and adequately secured. Therefore, in connection with all loans made pursuant to the provisions of this circular, it will be required either that a margin of collateral be pledged by the applicant or that the notes tendered as collateral be secured by an ample margin of sub-collateral.

6. ONLY SOUND LOANS CONSIDERED.

It is the desire of the Reconstruction Finance Corporation to render genuine assistance, in so far as it legitimately can, to fundamentally sound enterprises to which, for one reason or another, normal credit either is not available from or will not be extended by the usual banking and financial channels. Enterprises of a promotional nature will not be considered, nor enterprises which have no reasonable hope of success or for which there appears to be no real economic need.

7. CHARGES, COMMISSIONS, BONUSES, FEES, ETC.

No charges or commissions in any form not fully disclosed and reasonable for actual services rendered may be charged to any applicant or to any borrower from any applicant. Payment of bonuses, special fees, or commissions for the purpose of, or in connection with, obtaining loans is prohibited.

8. INFORMATION TO BE FILED WITH APPLICATION.

With respect to each note of a borrower offered by a bank, trust company, or mortgage-loan company, complete information in duplicate should be furnished by the applicant, and should include the following:

(a) Balance sheet and income account for the past 2 years. Information as to scope of the borrower's present operations, including the present number of employees.

(b) If the loan comes within the provisions of paragraphs 1 and 2 of this circular, the amount of materials to be purchased and additional labor to be employed as a result of the loan.

(c) If the loan comes within the provisions of paragraphs 1 and 2 of this circular, unfilled orders on the books or in prospect or other satisfactory evidence that the borrower will be able to operate successfully and to pay the loan.

(d) If the loan comes within the provisions of paragraph 3 of this circular, adequate information must be furnished regarding the use to which the proceeds of the loan will be put.

(e) If the loan comes within the provisions of paragraph 3 of this circular, evidence must be furnished of the ability of the borrower to operate successfully and to liquidate or refund the loan within a reasonable time. This will involve information regarding the economic need for the borrower in the community.

(f) Information showing compliance with paragraph 7 of this circular.

9. METHOD OF FILING APPLICATION.

The proper application forms may be obtained from the Loan Agency of the Reconstruction Finance Corporation serving the territory in which the applicant is located. (See list of such Loan Agencies on page 5 of this circular.)

The application should be accompanied by a schedule of the borrowers to whom the proceeds of the loan will be or has been lent and the amount of

each loan; also by a duly executed agreement by the applicant that the proceeds of the loan will be lent to such borrowers at a rate not to exceed 5 percent or 6 percent per annum, as the case may be.

Applicants will be required to furnish full and adequate credit data as well as complete information relative to the security offered. In the event all of the notes offered as collateral are not available for delivery at the time the loan is to be closed pursuant to approval of the application by the Board of Directors of the Corporation, disbursement will be made in part in accordance with existing regulations covering this subject.

LOAN AGENCIES OF THE RECONSTRUCTION FINANCE CORPORATION

Loan agencies of the Reconstruction Finance Corporation are located in the following cities:

Atlanta, Ga.	Houston, Tex.	Omaha, Nebr.
Birmingham, Ala.	Jacksonville, Fla.	Philadelphia, Pa.
Boston, Mass.	Kansas City, Mo.	Portland, Oreg.
Charlotte, N.C.	Little Rock, Ark.	Richmond, Va.
Chicago, Ill.	Los Angeles, Calif.	Salt Lake City, Utah.
Cleveland, Ohio.	Louisville, Ky.	San Antonio, Tex.
Dallas, Tex.	Minneapolis, Minn.	San Francisco, Calif.
Denver, Colo.	Nashville, Tenn.	Seattle, Wash.
Detroit, Mich.	New Orleans, La.	Spokane, Wash.
El Paso, Tex.	New York, N.Y.	St. Louis, Mo.
Helena, Mont.	Oklahoma City, Okla.	

Acts of Congress

The following sections of the Reconstruction Finance Corporation Act, as amended, applicable to loans are quoted for the information of applicants:

SEC. 5. To aid in financing agriculture, commerce, and industry, including facilitating the exportation of agricultural and other products, the corporation is authorized and empowered to make loans, upon such terms and conditions not inconsistent with this act as it may determine, to any bank, savings bank, trust company, building and loan association, insurance company, mortgage loan company, credit union, Federal land bank, joint-stock land bank, Federal intermediate credit bank, agricultural credit corporation, livestock credit corporation, organized under the laws of any State or of the United States, including loans secured by the assets of any bank, savings bank, or building and loan association, that is closed, or in process of liquidation, to aid in the reorganization or liquidation of such banks, or building and loan associations, upon application of the receiver or liquidating agent of such bank, or building and loan association, and any receiver of any national bank is hereby authorized to contract for such loans and to pledge any assets of the bank for securing the same.

All loans made under the foregoing provisions shall be fully and adequately secured. The corporation, under such conditions as it shall prescribe, may take over or provide for the administration and liquidation of any collateral accepted by it as security for such loans. Such loans may be made directly upon promissory notes or by way of discount or rediscount of obligations tendered for the purpose, or otherwise in such form and in such amount and at such interest or discount rates as the corporation may approve: *Provided*, That no loans or advances shall be made upon foreign securities or foreign acceptances as collateral or for the

purpose of assisting in the carrying or liquidation of such foreign securities and foreign acceptances. In no case shall the aggregate amount of advances made under this section to any one corporation and its subsidiary or affiliated organizations exceed at any one time $2\frac{5}{8}$ per centum of (1) the authorized capital stock of the Reconstruction Finance Corporation plus (2) the aggregate amount of bonds of the corporation authorized to be outstanding when the capital stock is fully subscribed.

Each such loan may be made for a period not exceeding three years, and the corporation may from time to time extend the time of payment of any such loan, through renewal, substitution of new obligations, or otherwise, but the time for such payment shall not be extended beyond five years from the date upon which such loan was made originally. The corporation may make loans under this section at any time prior to the expiration of one year from the date of the enactment hereof; and the President may from time to time postpone such date of expiration for such additional period or periods as he may deem necessary, not to exceed two years from the date of the enactment hereof.¹

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SEC. 6. Section 5202 of the Revised Statutes of the United States, as amended, is hereby amended by striking out the words "War Finance Corporation Act" and inserting in lieu thereof the words "Reconstruction Finance Corporation Act."

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SEC. 16. (a) Whoever makes any statement knowing it to be false, or whoever willfully overvalues any security, for the purpose of obtaining for himself or for any applicant any loan, or extension thereof by renewal, deferment of action, or otherwise, or the acceptance, release, or substitution of security therefor, or for the purpose of influencing in any way the action of the corporation, or for the purpose of obtaining money, property, or anything of value, under this act, shall be punished by a fine of not more than \$5,000 or by imprisonment for not more than two years, or both.

(b) Whoever (1) falsely makes, forges, or counterfeits any note, debenture, bond, or other obligation, or coupon, in imitation of or purporting to be a note, debenture, bond, or other obligation, or coupon issued by the corporation, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited note, debenture, bond, or other obligation, or coupon, purporting to have been issued by the corporation, knowing the same to be false, forged, or counterfeited, or (3) falsely alters any note, debenture, bond, or other obligation, or coupon, issued or purporting to have been issued by the corporation, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true any falsely altered or spurious note, debenture, bond, or other obligation, or coupon, issued or purporting to have been issued by the corporation, knowing the same to be falsely altered or spurious, or any person who willfully violates any other provision of this act, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years, or both.

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(e) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U. S. C., title 18, ch. 5, secs. 202 to 207, inclusive) in so far as applicable, are extended to apply to contracts or agreements with the corporation under this act, which for the purposes hereof shall be held to include loans, advances, discounts, and rediscounts; extensions and renewals thereof; and acceptances, releases, and substitutions of security therefor.

The following section of Public Act No. 35, Seventy-third Congress, is applicable to loans referred to in this circular:

SEC. 4. The Reconstruction Finance Corporation shall not make, renew, or extend any loan under the Reconstruction Finance Corporation Act, as amended, or under the Emergency Relief and Construction Act of 1932, (1) if at the time of making, renewing, or extending

¹ By proclamation of the President, Dec. 8, 1932, the power of Reconstruction Finance Corporation to make loans under provisions of sec. 5 was extended to "any time prior to the 22d day of January, 1934."

such loan any officer, director, or employee of the applicant is receiving compensation at a rate in excess of what appears reasonable to the Reconstruction Finance Corporation, and (2) unless at such time the applicant agrees to the satisfaction of the Corporation not to increase the compensation of any of its officers, directors, or employees to any amount in excess of what appears reasonable to the Reconstruction Finance Corporation while such loan is outstanding and unpaid. For the purposes of this section the term "compensation" includes any salary, fee, bonus, commission, or other payment, direct or indirect, in money or otherwise for personal services.

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