CIRCULAR NO. 13
OF THE
RECONSTRUCTION
FINANCE CORPORATION

INFORMATION REGARDING LOANS
TO INDUSTRY

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INFORMATION REGARDING LOANS TO INDUSTRY

For the purpose of maintaining and increasing the employment of labor, the Reconstruction Finance Corporation will make loans, when adequately secured, to industry, directly or in cooperation with Federal Reserve Banks or other banks or lending institutions or by the purchase of participations in loans made by banks or others, to aid solvent industrial concerns established prior to January 1, 1934, when credit at prevailing bank rates for loans of the character of loan applied for is not otherwise available at banks.

1. Limitations Imposed by Law

(a) The applicant must have been established in business prior to January 1, 1934.
(b) Adequate security must be provided.
(c) The maturity of the loan must not exceed five years.
(d) The applicant must be solvent at the time of disbursement of the loan.
(e) Credit at prevailing bank rates for loans of the character applied for must be not otherwise available at banks.
(f) Such loans may be made only when deemed to offer reasonable assurance of continued or increased employment of labor.
(g) The aggregate of such loans to any one applicant, or the participation of Reconstruction Finance Corporation therein, shall not exceed $500,000.
(h) Such other terms, conditions, and restrictions as Reconstruction Finance Corporation may determine.

2. Terms and Conditions

Loans will be made by the Reconstruction Finance Corporation, either directly, or in cooperation with Federal Reserve Banks or other banks or lending institutions, or by the purchase of participations in loans, upon the following terms and conditions, and for the following purposes:

A. Maturities

Such loans shall mature at such time within five years as the Reconstruction Finance Corporation may in each case determine. A program of payments will be required with a view to the borrower's liquidating its debt within the period of time agreed upon.

B. Interest rates

Interest shall be at the prevailing bank rates for the character of loan applied for.
C. Maximum Amount

The aggregate of such loans to any one applicant or the participation of Reconstruction Finance Corporation therein shall not exceed $500,000. Any industrial concern requiring more than $500,000 may be accommodated by Federal Reserve Banks or other banks or lending institutions participating in the loan to the extent of the excess above the $500,000 limit placed by Congress upon the amount that Reconstruction Finance Corporation may lend to any one borrower.

D. Purposes

As Section 5d of the Reconstruction Finance Corporation Act, as amended, provides that loans thereunder shall be made for maintaining and increasing the employment of labor, the Corporation will make such loans for the following purposes:

(a) Working Capital.—Loans will be made primarily to supply needed working capital (such as for the payment of labor and the purchase of materials) as contrasted with fixed capital.

(b) Payment of Existing Indebtedness.—In general, loans will not be made when the proceeds are to be used to pay existing indebtedness. In cases where working capital is needed and the applicant has substantial outstanding indebtedness and/or its properties are already encumbered, it will be necessary for such applicant to work out some arrangement with existing creditors whereby, in consideration of new working capital coming into the business or perhaps by reason of a relatively small payment on account, existing indebtedness and encumbrances will be deferred and subordinated during the period of the proposed loan in order to provide adequate security and to assure that the new funds will be continuously devoted to operating purposes. In the event that such a plan can be effected, an incidental portion of the loan may be used to make such payment on account.

(c) Loans for Tax Payments.—An incidental portion of such loans may, under certain circumstances, be applied to the payment of taxes on properties which are necessary to the operation of the business.

(d) Loans to be used for Construction, Improvement, and Repair.—In general, loans will not be made when the proceeds are to be used primarily to finance new construction. When funds are required chiefly for working capital purposes, but where it is necessary for the applicant to make replacements or to make minor repairs or improvements to plant in order to enable the applicant to operate more effectually, a small portion of the loan may be permitted to be applied to such purposes.

(e) Loans to Contractors.—Under exceptional circumstances, loans may be made to contractors for working capital, provided that satisfactory arrangements have been made to finance the entire cost of the project which the contractor has been engaged to construct. An assignment of a contract will not be considered sufficient security for such loans; such contracts may be considered only as evidence of ability to repay loans which are otherwise satisfactorily secured.
It is not the intention of the Corporation to make such loans—
(1) To finance consumer purchases, installment sales, or similar contracts.
(2) To finance imports or exports.
(3) For development or promotional purposes, or to enable business concerns to expand into new fields of endeavor, or to concerns which have no reasonable assurance of success or for which there appears to be no economic need.
(4) To provide for the operation of any business in receivership. However, applications will be considered for loans contingent upon the termination of the receivership by a settlement with creditors or otherwise so that the business will be restored to a solvent condition.
(5) To concerns which are not in operation, especially if they have been inactive for a substantial period.

3. Eligibility

Applications will be received from industrial concerns, including the fishing industry, (whether corporations, partnerships or individuals) only if established prior to January 1, 1934.

4. Security Requirements

Section 5d of the Reconstruction Finance Corporation Act, as amended, requires that all loans made thereunder shall be “adequately secured.” The security may consist of any one or more of the following: a first mortgage on real estate, plant and equipment, a first mortgage on chattels, an assignment of current accounts or notes receivable, trade acceptances, warehouse receipts on merchandise stored in bonded warehouses, or a first lien on other assets of sound value acceptable to the Corporation. An assignment of orders will not constitute adequate primary security; however, such orders are important to establish the ability of the applicant to repay the loan. The Corporation will not usually consider as satisfactory primary security the following: second mortgages, parts of a bond issue (even though such issue is a first lien) unless the bonds have a readily ascertainable market value, shares of stock of corporate applicants or shares of stock without readily ascertainable market value, franchises, patents, goodwill, or foreign securities. Any due or delinquent taxes constituting a lien on the properties or earnings of the business must usually be fully paid or provided for before any loan will be made. A pledge of inventories will generally not be regarded as satisfactory collateral, unless stored in a bonded or otherwise acceptable warehouse.

5. Solvency

Section 5d of the Reconstruction Finance Corporation Act, as amended, provides that such loans shall be made only when, in the opinion of the board of directors of the Corporation, the applicant is solvent. If the applicant is not solvent at the time of making application, the application should indicate the manner in which the applicant will become solvent prior to the time of disbursement of the proposed loan, for example, by additional capital paid in and/or
by releases of indebtedness and/or conversion of indebtedness into stock by creditors of the applicant in sufficient amount to restore the applicant to solvency.

6. Compliance With National Recovery Administration Codes

Each applicant must execute a certificate that it is complying and will continue to comply with the approved code of fair competition for the applicant's trade or industry, or subdivision thereof concerned, or, if there be no approved code of fair competition for the trade or industry in which the applicant is engaged, has signed, and is complying and will continue to comply with, the President's Reemployment Agreement promulgated under authority of section 4 (a) of the National Industrial Recovery Act.

In order to comply with Executive Order No. 6646, issued by the President of the United States on March 14, 1934, each applicant must agree that all contracts and orders by the applicant, or by his general contractor, if any, for machinery, articles, materials, or services, to be acquired, in whole or in part, with any of the proceeds of the loan, shall require, before performance or delivery, a certificate as hereinafter described signed by the party awarded such contract or order and by all concerns supplying, directly or indirectly, the aforesaid machinery, articles, materials, or services. Such certificate shall state that the party signing it is complying with and shall continue to comply with each approved code of fair competition to which it is subject; or, if engaged in any trade or industry for which there is no approved code of fair competition, the certificate shall state that the party signing it has become a party to, is complying with and shall continue to comply with the agreement with the President under section 4 (a) of the National Industrial Recovery Act. In the event that invitations for bids are issued by the applicant, or by his general contractor, if any, for machinery, articles, materials, or services, to be acquired in whole or in part with any of the proceeds of the loan, they shall require the bid to contain such a certificate by the bidder, and an agreement by the bidder to obtain such a certificate from all concerns supplying, directly or indirectly, the aforesaid machinery, articles, materials, or services. Each applicant must give the Corporation such proof of fulfillment of his agreement as it may require.

7. Charges, Commissions, Bonuses, Fees, Etc.

Payment of bonuses, fees, or commissions for the purpose of, or in connection with, obtaining loans is prohibited. However, the borrower, subject to the prior approval of the Corporation, may be allowed to pay the actual reasonable costs incurred in the making of the loan. Such charges may include reasonable compensation for services rendered by attorneys, appraisers, accountants, etc., but not in any event for alleged services in connection with the presentation of the application to the Reconstruction Finance Corporation. Such charges must be fully disclosed. A fee based upon a percentage of the loan will be objected to, as also will fees or charges made contingent upon the
obtaining of the loan. Applicants will be required to furnish satisfactory proof in the application that no bonus, fee, or commission has been or will be paid, and that no compensation, other than reasonable compensation for services required in making the loan, fully disclosed and itemized, has been or will be paid.

8. Salaries and Dividends

The applicant must agree that, so long as any portion of the loan remains unpaid, it will not pay any salaries which are not deemed by the Corporation to be reasonable.

So long as any portion of the loan remains outstanding, no dividends may be paid by any corporate applicant nor any distribution (except reasonable compensation for services) made by partnership or individual applicants, without the consent of the Corporation.

9. Audits and Appraisals

An independent audit of the applicant and an appraisal of plant and equipment, both satisfactory to Reconstruction Finance Corporation and made as of a date not more than 6 months preceding the date of filing of the application, will be required. However, independent audits will not generally be required in the case of loans of $10,000 or less when the applicant furnishes satisfactory sworn financial statements.

10. Loans in Cooperation with Banks or Other Lending Institutions, and Purchases of Participations in Loans

The Corporation will receive applications from Federal Reserve banks or other banks and lending institutions for the purchase by the Corporation of participations in such loans made by such banks or other lending institutions, and will make such loans in cooperation with Federal Reserve banks or other banks or lending institutions, when such loans are for the purposes and in accordance with the terms and conditions set forth in this Circular.

The provision for the purchase of participations is interpreted by the Corporation to allow Federal Reserve banks or other banks to complete loans to qualified industrial borrowers in their own name so that the normal relationship of banker and customer will be maintained. The lending bank may feel that the loan desired is, for one reason or another, too large for the bank to carry and may desire that other lending institutions or this Corporation participate in the risk. Provided such loans are hereafter made and are in accordance with the terms and conditions set forth in this Circular, this Corporation will purchase participation in such loans from the lending bank, either alone or with other lending institutions.

The Corporation will also cooperate with Federal Reserve banks or other banks in making such loans; that is, for instance, by making a part of a loan directly to the borrower at the same time that another part of a loan is made by the bank or other lending institutions, or by other arrangements which will
bring about cooperation in lending money between existing financial institutions and the Corporation. The Corporation invites the cooperation of banks in making such loans, and it is expected that banks or other lending institutions will participate in the program outlined herein principally by this method of taking a part of a particular loan, in the hope that such bank or other lending institution will later take the entire loan, when conditions and the credit risk justify.

11. Loans Under Circular No. 11

The Corporation will continue to receive applications from banks, trust companies, and mortgage loan companies (including newly organized mortgage loan companies) for industrial loans, subject to the limitations of this Circular No. 13.

12. Information to be Filed and Method of Filing

The proper application forms may be obtained from the Loan Agency of the Reconstruction Finance Corporation serving the district in which the applicant is located. (See list of such Loan Agencies below and map showing Loan Agency districts on page 7.) Applications should be filed with the Loan Agency serving applicant's district. No application will be received directly at the Washington office of the Corporation.

All requests for further information should be directed to the local Loan Agency of the Corporation serving applicant's district and not to the Washington office.

Each agency will maintain facilities for assisting applicants in determining the eligibility of their prospective loans, and for instructions in the preparation of applications.

13. Locations of Local Loan Agencies of Reconstruction Finance Corporation

(The territory served by each Loan Agency is indicated on the map on page 7 of this Circular.)

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

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

Sec. 5d. For the purpose of maintaining and increasing the employment of labor, when credit at prevailing bank rates for the character of loans applied for is not otherwise available at banks, the Corporation is authorized and empowered to make loans to any industrial or commercial business which shall include the fishing industry, established prior to January 1, 1934. Such loans shall in the opinion of the board of directors of the Corporation be adequately secured, may be made directly, or in cooperation with banks or other lending institutions, or by the purchase of participations, shall have maturities not to exceed five years, shall be made only when deemed to offer reasonable assurance of continued or increased employment of labor, shall be made only when, in the opinion of the board of directors of the Corporation, the borrower is solvent, shall not exceed $300,000,000 in aggregate amount at any one time outstanding, and shall be subject to such terms, conditions, and restrictions as the board of directors of the Corporation may determine. The aggregate amount of loans to any one borrower under this section shall not exceed $500,000.

The power to make loans given herein shall terminate on January 31, 1935, or on such earlier date as the President shall by proclamation fix; but no provision of law terminating any of the functions of the Corporation shall be construed to prohibit disbursement of funds on loans and commitments, or agreements to make loans, made under this section prior to January 31, 1935, or such earlier date.

The following section of Public Act No. 417, Seventy-third Congress, relates to loans to finance the American fisheries industry:

The Corporation is authorized and empowered to make loans under section 5 of the Reconstruction Finance Corporation Act, as amended, to any person, association, or corporation organized under the laws of any State, the District of Columbia, Alaska, Hawaii, or Puerto Rico, for the purpose of financing the production, storage, handling, packing, processing, carrying, and/or orderly marketing of fish of American fisheries and/or products thereof upon the same terms and conditions, and subject to the same limitations, as are applicable in case of loans made under said section 5, as amended.

The following sections of the Reconstruction Finance Corporation Act, as amended, are applicable to loans under section 5 and section 5d of the Reconstruction Finance Corporation Act, as amended:

Sec. 5. 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 2½ 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.
SEC. 5b. Notwithstanding any other provision of law—

(1) the period for which the Corporation may make loans or advances under section 5 of this Act may be five years, or any shorter period, from February 1, 1935.

(2) The Corporation may at any time, or from time to time, extend, or consent to the extension of, the time of payment of any loan or advance made by it, through renewal, substitution of new obligations, or otherwise, but the time for such payment shall not be extended beyond five years from February 1, 1935.

SEC. 8. In order to enable the corporation to carry out the provisions of this Act and the Emergency Relief and Construction Act of 1932, the Treasury Department, the Federal Farm Loan Board, the Comptroller of the Currency, the Federal Reserve Board, the Federal Reserve banks, and the Interstate Commerce Commission are hereby authorized, under such conditions as they may prescribe, to make available to the corporation, in confidence, such reports, records, or other information as they may have available relating to the condition of applicants with respect to whom the corporation has had or contemplates having transactions under either of such Acts, or relating to individuals, associations, partnerships, corporations, or other obligors whose obligations are offered to or held by the corporation as security for loans under either of such Acts, and to make, through their examiners or other employees for the confidential use of the corporation, examinations of applicants for loans.

Every applicant for a loan under either of such Acts shall, as a condition precedent thereto, consent to such examination as the corporation may require for the purposes of either of such Acts and that reports of examinations by constituted authorities may be furnished by such authorities to the corporation upon request therefor.

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.

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) insofar 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 Emer-
gency Relief and Construction Act of 1932, (1) if at the time of making, renewing, or extending 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.