CIRCULAR NO. 13
(REVISED)
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, to aid solvent industrial businesses 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. Requirements Imposed by Law

(a) The business must have been established 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 not otherwise be available at banks.
(f) Such loans may be made only when deemed to offer reasonable assurance of maintaining and increasing the 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, but will not exceed 6 percent.
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.

The Comptroller of the Currency has ruled that the act of Congress of June 19, 1934, relating to industrial loans was intended to expand the scope of the lending power of national banks so as to permit a national bank to make a loan under said act which exceeds or departs from the restrictive provisions of the United States Revised Statutes, section 5200, as amended, and the Federal Reserve Act, section 24, provided that the national bank has obtained a commitment from the Reconstruction Finance Corporation or a Federal Reserve Bank to take, within a specified period, a portion of said loan so that the net amount of the national bank's participation, after giving effect to the commitment, would be within the limitations imposed by the aforesaid restrictive provisions.

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) Labor and Materials.—Loans will be made primarily to supply funds for the payment of labor and the purchase of materials incident to the operation of the business, as contrasted with fixed capital expenditures.

(b) Payment of Existing Indebtedness.—In general, loans will not be made when the proceeds are to be used primarily to pay existing indebtedness. In cases where an applicant has substantial outstanding indebtedness, it may be necessary to work out some arrangement with existing creditors whereby, after the receipt of the proceeds of any loan made by this Corporation, the applicant's current position will be such that it can reasonably be expected to continue operations without embarrassment from creditors. To accomplish this it may be necessary for the applicant to secure the consent of all or a substantial part of its creditors to accept either a capital liability, such as common or preferred stock, or possibly a compromise of the indebtedness. Where this is not possible, it may be that an agreement can be secured from its creditors whereby, in consideration of new money coming into the business, the existing indebtedness will be deferred and/or subordinated during the life of the proposed loan. In order to accomplish this readjustment of the applicant's liabilities, it may be necessary to use an incidental portion of the loan to make a payment on account. This will not be objectionable provided the applicant will have sufficient operating capital after the completion of the financial readjustment. Where the outstanding indebtedness is due to a closed bank, special consideration will be given in
determining the portion of the loan which may be applied to the payment of such indebtedness; but a major portion of the proceeds may be so applied only when it is definitely established that the loan is necessary to maintain or increase the employment of labor.

(c) Loans for Tax Payments.—An incidental portion of such loans, in certain circumstances, may 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 the payment of labor and the purchase of materials incident to the operation of the business, but where it is necessary for the applicant to make minor replacements, repairs, or improvements to plant in order to enable the applicant to operate more efficiently, a small portion of the loan may be permitted to be applied to such purposes.

(e) Loans to Contractors.—In exceptional circumstances, loans may be made to contractors, provided (i) that satisfactory arrangements have been made otherwise to finance the entire cost of the project which the contractor has been engaged to construct, and (ii) that the proceeds are to be used for the payment of labor or the purchase of material while the project is under construction. An assignment of a contract will not be considered sufficient security for such loans; and such contracts may be considered only as evidence of ability to repay loans 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, except where such imports or exports are only minor and incidental to the general business conducted.
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 have not been in operation for a substantial period, unless it can be definitely shown that it will be economically sound to revive an established business.
6. To finance the development or purchase of new inventions, the cost of obtaining patents, the expense of infringement suits or any other litigation.

3. Eligibility

Applications will be received from industrial and commercial businesses (whether corporations, partnerships or individuals) established prior to January 1, 1934. It is the view of the Corporation that the purpose of such loans,
as expressed by Congress, i.e. "maintaining and increasing the employment of labor", necessitates a construction which emphasizes the employment of labor, as in manufacturing concerns, as distinguished from the purchase of inventories as in commercial businesses.

Loans to the ore industry, to managing agencies of farmers' cooperative mineral rights pools and to the fishing industry will be made under the provisions of this Corporation's Circulars Nos. 14, 16, and 17, respectively, and not, generally, under the provisions of this revised Circular No. 13. Loans to institutions for the exclusive purpose of financing the carrying and orderly marketing of agricultural commodities will be made only under the provisions of Circular No. 10.

Each Loan Agency of the Corporation will, when requested, assist and advise with applicants in determining their eligibility and in the preparation of applications; provided, however, that any such assistance, advice or suggestions by such Agencies shall in no sense be considered as a commitment of the Reconstruction Finance Corporation to make the loan.

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 one or more of the following: A first mortgage on real estate, plant and equipment, an assignment of warehouse receipts on marketable merchandise stored in satisfactory warehouses, a first mortgage on chattels or an assignment of current receivables (accounts, notes or trade acceptances); but such loans generally will not be made on the sole security of receivables or of equipment or other chattels not represented by warehouse receipts. The applicant may offer, as additional collateral, a first lien on any other assets of sound value. 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 usually will not consider as satisfactory primary security the following: second mortgages, shares of stock of corporate applicants or shares of stock without readily ascertainable market value, franchises, patents, goodwill or foreign securities. A pledge of inventories generally will not be regarded as satisfactory collateral, unless stored in a bonded or otherwise acceptable warehouse, or unless the applicable state law provides for a satisfactory lien upon inventory not so warehoused.

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 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 the 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 for the purchase by the Corporation of participations in loans of the character described in this Circular made by such banks, and will make such loans in cooperation with Federal Reserve Banks, banks or other lending institutions, when such loans are for the purpose 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 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, or will make an agreement to purchase if requested to do so within a specified time, participation in such loans from the lending bank.

The Corporation will also cooperate with Federal Reserve Banks or other banks or lending institutions in making such loans; for instance, by making a loan directly to the borrower at the same time that another loan is made by the bank or other lending institution, or by other mutually satisfactory 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, in the hope that such bank or other lending institution will later take the entire loan, when conditions and the credit risk justify.

Further information concerning this type of loans or agreements may be obtained from this Corporation’s Circular No. 15.

11. Loans Under Circular No. 11

Since the Corporation is now authorized to make loans directly to industrial and commercial businesses, the Corporation has determined that generally it will confine its industrial loans to cases of applications for direct loans (as provided in this circular) or for loans in cooperation with banks or other lending institutions or for purchases of participations (as provided in Circular No. 15), in accordance with section 5d of the Reconstruction Finance Corporation Act, as amended. Accordingly this revised Circular No. 13 supersedes Circular No. 11, which provided for loans to banks, trust companies or mortgage-loan companies for relending to business and industry.

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 8.)

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 information should be directed to the local Loan Agency of the Corporation serving applicant’s district and not to the Washington office.

13. Locations of Local Loan Agencies of Reconstruction Finance Corporation

(The territory served by each Loan Agency is indicated on the map on page 8 of this Circular.)

Atlanta, Ga.  Houston, Tex.  Omaha, Nebr.
Chicago, Ill.  Los Angeles, Calif.  Salt Lake City, Utah.
Cleveland, Ohio.  Louisville, Ky.  San Antonio, Tex.
Dallas, Tex.  Minneapolis, Minn.  San Francisco, Calif.
El Paso, Tex.  New York, N. Y.  St. Louis, Mo.
Helena, Mont.  Oklahoma City, Okla.  }
RECONSTRUCTION FINANCE CORPORATION LOAN AGENCY DISTRICTS

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

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, 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.

(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) 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 Emergency 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.