INFORMATION REGARDING LOANS TO INDUSTRY

For the purpose of maintaining and increasing the employment of labor the Reconstruction Finance Corporation is authorized to make loans, when so secured as reasonably to assure repayment, to solvent industrial businesses, directly or in cooperation with Federal Reserve Banks or other banks or lending institutions or by the purchase of participations in loans, when credit at prevailing bank rates for loans of the character applied for is not otherwise available at banks.

I. Requirements Imposed by Law

(a) Credit at prevailing bank rates for loans of the character applied for must not otherwise be available at banks.
(b) The loan must be so secured as reasonably to assure repayment.
(c) The loan must mature not later than January 31, 1945.
(d) Such loans may be made only when deemed to offer reasonable assurance of maintaining or increasing the employment of labor.
(e) The applicant must be solvent at the time of disbursement of the loan.
(f) Such other terms, conditions, and restrictions as Reconstruction Finance Corporation may determine must be complied with.

II. Terms and Conditions

Loans to industry 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, prior to January 31, 1945, as the Reconstruction Finance Corporation may in each case determine. A program of payments will be arranged with a view to the borrower's orderly liquidation of its debt.

It is contemplated that loans will not be made for a longer term than is justified by the facts of the particular case. However, the period of time so determined will be sufficient, insofar as it can be estimated at the time the loan is granted, to enable the borrower to make plans for the development of future business without being unnecessarily restricted by a repayment schedule which would impair the borrower's working capital during the life of the loan. When loans are primarily to finance capital expenditures, a repayment program up to January 31, 1945, may be considered. For established industries whose need is principally for shorter term credit, such loans usually should be repaid within five years or less.
B. Interest Rates

Interest shall be at such rate as may be fixed from time to time by this Corporation.

C. 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 industrial loans for the following purposes:

(a) Loans for Labor and Materials.—The Corporation will give consideration to applications for loans, the proceeds of which will be used for the payment of labor and the purchase of material incident to the operation of a business.

(b) Loans to Pay Existing Indebtedness and Taxes.—The Corporation will give consideration to applications for loans where a portion of the proceeds is to be applied to the payment of taxes and existing indebtedness. Loans may be considered where a substantial portion of the proceeds is to be used to satisfy existing indebtedness on a compromise basis that would be satisfactory to the Corporation, provided that it is shown that the loan is necessary to maintain the employment of labor, and that the applicant, after the debt adjustment (which may be made either by compromise settlement in full satisfaction of the debt, or by partial payment in cash and the issuance of junior obligations or equity securities), will have sufficient operating assets, and that there is reasonable assurance of continuous operation.

(c) Loans for the Purchase of Additional Machinery.—The Corporation will give consideration to applications for loans when the proceeds will be used for the purchase of additional machinery, provided it is shown that such capital expenditures will assist in rounding out the production of the plant or balancing its operations and that such expenditures are economically sound.

(d) Loans for New Enterprises and for the Expansion of Existing Businesses.—The Corporation will consider applications for loans to new industries or to enable established business concerns to expand into new fields of endeavor, provided it can be shown that such loans will be economically sound and socially desirable. Applicants must have substantial equity investment, without giving consideration to services rendered, patents, goodwill, or similar intangibles, or to the potential value which will be established if the operations are successful, so that the funds advanced by this Corporation will be secured as required by law and will not be subject to the risks incident to and properly borne by equity investors. The new enterprise must be sufficiently beyond the developmental or promotional stage that profitable future operations, and therefore continuous employment of labor, can reasonably be assured. Also, it will be required that after giving effect to the loan from this Corporation the applicant will have working capital adequate to assure continuous operation. The collateral value of the security, the net worth and financial condition of the applicant, and future earnings prospects will be considered carefully.

(e) Loans to Finance Industrial Construction.—When a loan from this Corporation is to be used in whole or in part to finance industrial construction, the Corporation may advance funds for this purpose as the construction pro-
gresses, provided the initial advances shall be satisfactorily secured by existing assets of the applicant. Final disbursement would be made on the completion of the new industrial property free from all liens other than the Reconstruction Finance Corporation mortgage. In all such cases, it will be necessary to show that either out of the current assets of the company or out of the proceeds of the Reconstruction Finance Corporation loans, sufficient funds have been provided to complete the construction and to provide working capital adequate to insure continuous operation.

(f) Loans to Contractors.—In exceptional circumstances, loans may be made to contractors, provided (1) that satisfactory arrangements have been made otherwise to finance the entire cost of the project which the contractor has been engaged to construct, and (2) 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. Such contracts may be considered as evidence of ability to repay loans otherwise satisfactorily secured.

It is not the intention of the Corporation to make loans:

(1) Where the collateral offered consists solely or principally of the assignment of unsecured obligations of non-industrial retail customers or consists of obligations of non-industrial retail customers secured by liens on chattels in the possession of the customers. However, when an industrial or commercial concern has acceptable collateral, other than such receivables, of a character and amount deemed satisfactory to secure a loan, consideration will be given to the application. The foregoing does not apply to loans to institutions, now or hereafter established, financing principally the sale of electrical, plumbing or air-conditioning appliances or equipment or other household appliances, both urban and rural.

(2) 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.

(3) To finance imports or exports, except where such imports or exports are only minor and incidental to the general business conducted.

(4) To finance the development or purchase of new inventions, the cost of obtaining patents, the expense of infringement suits or any other litigation.

III. Eligibility

Applications for industrial loans will be received from industrial and commercial businesses (including the fishing industry), whether corporations, partnerships or individuals. 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 business.

Loans to the ore industries and to managing agencies of farmers’ cooperative mineral rights pools will be made under the provisions of this Corporation’s
Circulars Nos. 14 and 16, 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 this Corporation's Circular No. 10.

Information regarding loans to institutions financing principally the sale of electrical, plumbing or air-conditioning appliances or equipment or other household appliances, may be obtained from the Corporation upon request.

Loans on real estate which is not owned by and used in connection with the operation of an industrial or commercial business will be made under the provisions of this Corporation's Circular No. 18.

IV. Security Requirements

Section 5d of the Reconstruction Finance Corporation Act, as amended, requires that all loans made thereunder shall be "so secured as reasonably to assure repayment of the loans." It is the opinion of the Corporation that the amendment was intended to allow greater latitude, as to what shall constitute security, than the words "adequate security" as used in Section 5d prior to January 31, 1935, and contemplates that loans made thereunder shall be secured by collateral of character and amount which, taken into consideration with other factors such as the character and ability of the management and prospective earnings, will afford reasonable assurance of repayment.

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 for 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 unsecured receivables, or of receivables representing non-industrial instalment purchases, 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.

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. An assignment of orders will not constitute satisfactory primary security; however, such orders may be important to establish the ability of the applicant to repay the loan. A pledge or mortgage 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 creating and maintaining a satisfactory lien upon inventory not so warehoused.

V. Solvency

Section 5 (d) 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.

VI. 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.

VII. 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 this 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 this Corporation.

VIII. Audits and Appraisals

An independent audit of the applicant and an appraisal of plant and equipment, both satisfactory to this Corporation and made as of a date not more than 6 months preceding the date of filing of the application, may be required. However, independent audits may not be required in the case of loans of $25,000 or less when the applicant furnishes satisfactory sworn financial statements. The loan agencies of this Corporation, in connection with preliminary applications, do not require formal audits or appraisals.

IX. 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 insti-
tutions, when such loans are for the purpose and in accordance with the terms and conditions set forth in this Circular.

The provision for this purchase of participations is interpreted by the Corporation to allow Federal Reserve Banks or other banks to complete loans in their own name to qualified industrial borrowers 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 any such loan is made after consideration by this Corporation of the purchase of a participation therein and is in accordance with the terms and conditions set forth in this Circular, this Corporation has authority to purchase, or to make an agreement to purchase if requested to do so within a specified time, a participation in such loan from the lending bank.

The Comptroller of the Currency has ruled that the Act of Congress of June 19, 1934, relating to industrial loans (which Act was amended by the act of January 31, 1935), 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.

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 between existing financial institutions and the Corporation in lending money.

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 such agreements between this Corporation and the lending bank may be obtained from this Corporation’s Circular No. 15.

X. Information to be Filed and Method of Filing

The proper preliminary application forms and formal 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.) Preliminary application forms requiring a minimum amount of information, and without audit or appraisals, will be considered by the Loan Agencies in
order that applicants may be spared the trouble and expense of filing a formal
application where clearly not warranted by the circumstances.

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.

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.

XI. 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.)

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<thead>
<tr>
<th>City</th>
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<tbody>
<tr>
<td>Atlanta, Ga.</td>
<td>Houston, Tex.</td>
<td>Omaha, Nebr.</td>
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<tr>
<td>Chicago, Ill.</td>
<td>Los Angeles, Calif.</td>
<td>Salt Lake City, Utah.</td>
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<tr>
<td>Cleveland, Ohio.</td>
<td>Louisville, Ky.</td>
<td>San Antonio, Tex.</td>
</tr>
<tr>
<td>Dallas, Tex.</td>
<td>Minneapolis, Minn.</td>
<td>San Francisco, Calif.</td>
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<tr>
<td>El Paso, Tex.</td>
<td>New York, N. Y.</td>
<td>St. Louis, Mo.</td>
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<tr>
<td>Helena, Mont.</td>
<td>Oklahoma City, Okla.</td>
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XII. Acts of Congress Applicable to Loans of the Character Herein Described

The following sections of the Reconstruction Finance Corporation Act, as
amended, applicable to such loans, are quoted for the information of prospec­
tive 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, and to any institution, now or
hereafter established, financing principally the sale of electrical, plumbing, or air-conditioning
appliances, or equipment or other household appliances, both urban and rural. Such loans
shall in the opinion of the board of directors of the Corporation, be so secured as reasonably
to assure repayment of the loans, may be made directly, or in cooperation with banks or other
lending institutions, or by the purchase of participations, shall mature not later than January
31, 1945, 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 aggre­
gate 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.
RECONSTRUCTION FINANCE CORPORATION LOAN AGENCY DISTRICTS
The power to make loans given herein shall terminate on January 31, 1937, 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, 1937, 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.