CIRCULAR NO. 13
(REVISED)
OF THE
RECONSTRUCTION
FINANCE CORPORATION

INFORMATION REGARDING LOANS
TO BUSINESS ENTERPRISES

APRIL 1938

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1938
INFORMATION REGARDING LOANS TO BUSINESS ENTERPRISES

For the purpose of maintaining and promoting the economic stability of
the country or encouraging the employment of labor, Reconstruction Finance
Corporation is authorized and empowered to purchase the securities and
obligations of, and to make loans to, any business enterprise, directly or in
cooperation with banks or other lending institutions through agreements to
participate or by the purchase of participations, or otherwise.

I. Requirements Imposed by Law

(a) Capital or credit, at prevailing rates for the character of loan applied
for, must not be otherwise available.

(b) All purchases of securities and obligations and all loans made shall be,
in the opinion of the board of directors of this Corporation, of such sound value,
or so secured, as reasonably to assure retirement or repayment.

(c) All purchases of securities and obligations and all loans shall be made
only when, in the opinion of the board of directors of this Corporation, the busi­
ness enterprise is solvent.

(d) Securities and obligations may be purchased, and loans may be made,
with such maturities as this Corporation may determine.

(e) All purchases of securities and obligations and all loans shall be made
under such terms, conditions, and restrictions as this Corporation may deter­
mine.

II. Terms, Conditions, and Purposes

Loans to business enterprises will be made by this Corporation upon the
following terms and conditions and for the following purposes:

A. Maturities

Loans shall mature at such time as Reconstruction Finance Corporation
may determine in each case. A program of payments will be arranged with a
view to the orderly liquidation of the debt by the borrower.

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 suffi­
cient, in so far as 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. For established
industries whose need is principally for shorter term credit, loans usually
should be repaid within five years or less. When loans are primarily to finance
capital expenditures, a longer repayment program may be considered.
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 the purpose of maintaining and promoting the economic stability of the country or encouraging the employment of labor, this Corporation will make loans to business enterprises for the following purposes:

1. Loans for Labor and Materials.—This Corporation will give consideration to applications for loans when the proceeds will be used for the payment of labor and the purchase of material required in the business.

2. Loans for the Purchase of Machinery.—This Corporation will give consideration to applications for loans when the proceeds will be used for the replacement of obsolete or worn out machinery or for the purchase of additional machinery, provided it is shown that such capital expenditures are necessary for efficient operation and are economically sound.

3. Loans for New Business Enterprises and for the Expansion of Existing Business Enterprises.—This Corporation will consider applications for loans to new business enterprises or to enable established business enterprises to expand into new fields of endeavor, provided it can be shown that such loans will be sound from an economic as well as a credit standpoint. Such applicants must have a net worth proportionate to the loan requested and the new enterprise must be sufficiently beyond the developmental or promotional stage that profitable future operations can reasonably be assured. It will also be required that after giving effect to the loan from this Corporation the applicant will have sufficient working capital to assure continuous operation. The collateral value of the security, the financial condition of the applicant, and future earning prospects will be considered carefully.

4. Loans to Finance Industrial Construction.—Loans will be considered to finance industrial construction in whole or in part. In all such cases it will be necessary to show that either out of the current assets of the business enterprise or out of the proceeds of this Corporation’s loan, sufficient funds have been provided to complete the construction and to provide sufficient working capital to assure continuous operation.

5. Loans to Pay Existing Indebtedness and Taxes.—It is not the intention of this Corporation to make loans for the primary purpose of paying existing indebtedness. Consideration will be given to applications for loans where a portion of the proceeds is to be applied to the payment of existing indebtedness, provided that the applicant, after receiving the loan and after adjustment of debt (if necessary), will have sufficient operating assets, and that there is reasonable assurance of continuous operation.

Adjustment of debts may be accomplished by one or more of the following methods:

(a) By issuance of shares of stock of the applicant in full payment;
(b) By issuance of bonds or notes secured by mortgage subordinate to the mortgage that will secure this Corporation;
(c) By agreement of creditors to make no demand for payment until the loan is repaid (commonly referred to as “stand-by agreement”);
(d) By payment of cash on a compromise basis in full satisfaction of the debt;
(e) By cancellation.

It is not the intention of this Corporation to make loans:
(1) To provide for the operation of any business enterprise in receivership or bankruptcy, though applications will be considered for loans contingent upon the termination of the receivership or bankruptcy by settlement with creditors or otherwise, upon a basis which will restore the business enterprise to a solvent condition.
(2) To finance the development or purchase of new inventions, the cost of obtaining patents, the expense of infringement suits or any other litigation.
(3) For personal needs.

III. Eligibility

Applications will be received from any business enterprise whether a corporation, a partnership, or an individual.

Loans to the ore industries will be made under the provisions of Section 14 of the Act approved June 19, 1934, as amended, and not under the provisions of Section 5d of the Reconstruction Finance Corporation Act, as amended. Information pertaining to such loans is contained in this Corporation's Circular No. 14.

Information pertaining to loans to States, municipalities, political subdivisions, and other public agencies under the provisions of Section 5d of the Reconstruction Finance Corporation Act, as amended, is contained in this Corporation's Circular No. 22.

Loans to railroads or to any receiver or trustee thereof will be made under the provisions of Section 5 of the Reconstruction Finance Corporation Act, as amended, and not under the provisions of Section 5d of the Reconstruction Finance Corporation Act, as amended. This Corporation's Circular No. 2 contains information pertaining to such loans.

IV. Security Requirements

Section 5d of the Reconstruction Finance Corporation Act, as amended, requires that all loans “shall be, in the opinion of the board of directors, of such sound value, or so secured, as reasonably to assure retirement or repayment.” Loans should be secured by collateral of character and amount which, considered in connection 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). The applicant may offer, as additional collateral, any other assets of sound value. The tangible net worth of the business enterprise should be in an amount proportionate to the loan requested.

This Corporation usually will not consider as satisfactory primary security the following: second mortgages, franchises, patents, good-will, or foreign securities. An assignment of orders will not constitute satisfactory primary security, though 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 5d of the Reconstruction Finance Corporation Act, as amended, provides that loans shall be made only when, in the opinion of the board of directors of this Corporation, the business enterprise is solvent. If the business enterprise is not solvent at the time of making application, the manner in which it will become solvent prior to the time of, or simultaneously with, disbursement of the proposed loan, should be indicated in the application.

VI. Charges, Commissions, Bonuses, Fees, Etc.

Payment of bonuses, fees, or commissions for the purpose of, or in connection with, obtaining loans is strictly prohibited. However, the business enterprise, subject to the prior approval of this 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 this Corporation. All charges must be fully disclosed. Fees or charges contingent upon the obtaining of a loan will not be allowed, nor will an applicant be permitted to pay a fee or charge based upon a percentage of a 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

As required by law, the applicant must agree that, so long as any portion of the loan remains outstanding, it will not pay compensation to any officer, director, or employee at a rate in excess of that which appears reasonable to this Corporation.

As 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 a partnership or individual applicant, without the consent of this Corporation.

VIII. Audits and Appraisals

In connection with preliminary applications, the applicant should submit an agreement to have an appraisal made, at its own expense, by appraisers satisfactory to this Corporation, if deemed advisable by this Corporation.

Independent audits usually are not required in the case of loans of $25,000 or less, when the applicant furnishes satisfactory sworn financial statements. An audit of the applicant, by the Auditing Division of this Corporation or a satisfactory independent auditor, as of a date not more than 6 months prior to date of application, ordinarily will be required for an approved loan of more than $25,000, but should be arranged for only upon request of the Loan Agency.

IX. Loans in Cooperation with Banks or Other Lending Institutions, and Participations in Loans

Loans will be made in cooperation with banks or other lending institutions through agreements to participate or by the purchase or sale of participations therein, or otherwise. Information concerning such participation agreements or loans may be obtained from this Corporation’s Circular No. 15.

X. Purchase of Securities and Obligations of Business Enterprises

In addition to making loans to business enterprises, this Corporation is authorized to purchase securities and obligations of business enterprises. The term “securities” refers to obligations with definite promises to pay and definite maturity dates, and does not include the purchase of stock in a business enterprise. Provisions set forth in this Circular with respect to loans will be considered to apply, where appropriate, to such purchases.

XI. Information to be Filed and Method of Filing

Preliminary and formal application forms may be obtained from the Loan Agency of 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 9.) Preliminary application forms, requiring a minimum amount of information, 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 must be filed with the Loan Agency serving applicant’s district. No application will be received directly at the Washington office of this Corporation.

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

Each Loan Agency of this Corporation will, when requested, assist and advise applicants 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 Reconstruction Finance Corporation to make a loan.

This Corporation will be under no obligation to pay any costs, charges, or expenses incurred by the applicant in connection with the preparation and filing of an application or the furnishing of any information required by this Corporation.

XII. Locations of Loan Agencies of Reconstruction Finance Corporation

(The territory served by each Loan Agency is indicated on the map on page 9 of this Circular.)

Atlanta, Ga.  Houston, Tex.  Omaha, Nebr.
Chicago, Ill.  Los Angeles, Calif.  St. Louis, Mo.
Cleveland, Ohio  Louisville, Ky.  Salt Lake City, Utah
Dallas, Tex.  Minneapolis, Minn.  San Antonio, Tex.
Helena, Mont.  Oklahoma City, Okla.

In addition, this Corporation maintains a Special Representative at San Juan, Puerto Rico, through whom all applications from Puerto Rico should be forwarded.

XIII. Acts of Congress Applicable to Loans of the Character Herein Described

The following is Section 5d of the Reconstruction Finance Corporation Act, as amended, pursuant to the provisions of which loans of the character herein described are made:

Sec. 5d. For the purpose of maintaining and promoting the economic stability of the country or encouraging the employment of labor the Corporation is authorized and em-
powered, under such terms, conditions, and restrictions as the Corporation may determine, to make loans to, or contracts with, States, municipalities, and political subdivisions of States, with public agencies and instrumentalities of one or more States, municipalities, and political subdivisions of States, and with public corporations, boards, and commissions, to aid in financing projects authorized under Federal, State, or municipal law, such loans or contracts to be made through the purchase of their securities, or otherwise, and for such purpose the Corporation is authorized to bid for such securities. The Corporation is further authorized and empowered to purchase the securities and obligations of, and to make loans to, any business enterprise when capital or credit, at prevailing rates for the character of loan applied for, is not otherwise available: Provided, That all such purchases of securities and obligations and all such loans shall be, in the opinion of the board of directors, of such sound value, or so secured, as reasonably to assure retirement or repayment; may be made or effected either directly or in cooperation with banks or other lending institutions through agreements to participate or by the purchase of participations, or otherwise; shall be made only when, in the opinion of the board of directors, the business enterprise is solvent; and shall be made under such terms, conditions, and restrictions as the corporation may determine: Provided further, That in carrying out the provisions of this section, the Corporation may purchase securities and obligations, and may make loans, with such maturities as the Corporation may determine, notwithstanding any other provision of law.

The powers granted to the Corporation by this section shall terminate on June 30, 1939, or on such earlier date as the President shall determine; but no provision of law terminating any of the functions of the Corporation shall be construed (1) to prohibit disbursement of funds on purchases of securities and obligations, on loans, or on commitments or agreements to make such purchases or loans, made under this section prior to the close of business on June 30, 1939, or such earlier date, or (2) to affect the validity or performance of any agreement to participate in any purchase or loan authorized by this section.

Nothing in this section shall be construed to authorize the Corporation (1) to purchase, or to make any commitment or agreement to purchase, any securities or obligations of any railroad engaged in interstate commerce the obligations of which may be purchased or guaranteed by the Corporation under section 5 of this Act only with the approval of the Interstate Commerce Commission, or (2) to make any loan, or any commitment or agreement to make a loan, to any such railroad or to any receiver or trustee thereof.

* * * *

The following provisions 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, 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.

* * *

(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 the Act approved June 10, 1933 (48 Stat., chap. 55), as amended, 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.