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CIRCULAR No. 14  
OF THE  
RECONSTRUCTION  
FINANCE CORPORATION

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INFORMATION REGARDING  
MINING LOANS



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## INFORMATION REGARDING MINING LOANS

The Reconstruction Finance Corporation will make loans, under section 14 of Public Act No. 417, Seventy-third Congress, upon adequate security, based on mineral acreage, to recognized and established corporations, individuals, and partnerships, engaged in the business of mining, milling, or smelting of ore.

### 1. Limitations Imposed by Law

(a) The applicant must be a recognized and established corporation, individual, or partnership, engaged in the business of mining, milling, or smelting of ore.

(b) Adequate security must be provided.

### 2. Terms and Conditions

Loans will be made by the Reconstruction Finance Corporation upon the following terms and conditions, and for the following purposes:

#### A. MATURITIES

Loans will ordinarily be made for a period not in excess of five years, but may be made for a longer period when, in the judgment of the Corporation, it is not practicable to require reimbursement of the Corporation within five years.

#### B. INTEREST RATES

• Interest shall be determined in each case by the Corporation, but probably will not exceed 6 percent in any case.

#### C. PURPOSES

The Corporation will make such loans for the following purposes:

(a) *Working Capital Loans.*—Loans will be made to provide working capital needed in connection with the mining, milling, or smelting of ore.

(b) *Fixed Capital Loans.*—Loans will be made for construction, improvement, repair, purchase of equipment, and for other fixed capital purposes, provided that the mining properties of the applicant operated in connection with the project for which the loan is needed contain sufficient reserves of developed ore to justify the capital investment.

(c) *Payment of Existing Indebtedness.*—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 an arrangement with existing creditors satisfactory to the Corporation whereby, in consideration of new 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.

(d) *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 applicant's mining, milling, or smelting business.

(e) *Promotional Loans.*—The Corporation is not authorized to make loans for purely prospective or promotional purposes, or on properties in which ore of sufficient value to insure repayment of the loan has not been blocked out at least partially.

### 3. Eligibility

Applications will be received only from recognized and established corporations, individuals, and partnerships engaged in the business of mining, milling, or smelting of ore. "Recognized and established", as applied to corporations, individuals, or partnerships, means that the business of mining, milling, or smelting of ore in which the applicant is engaged must have been established at such a time prior to the filing of the application that such business shall have obtained recognition in the business world. The word "ore" means any native compound from which a metal or metals can be extracted at a profit. Thus, coal and other nonmetallic minerals, salts, or other substances taken from the ground do not come within the purview of this section.

### 4. Security Requirements

Section 14 of Public Act No. 417, Seventy-third Congress, requires that all loans thereunder shall be made upon "adequate security, based on mineral acreage." "Mineral acreage" is mining property (land and/or mineral rights) on which there has been a reasonable amount of development and at least a partial blocking out of ore. If the mining property is owned by the applicant, a first mortgage thereon (including plant, equipment, and water rights) will be required. If the mining property is held by the applicant under a lease either with or without bond or option to purchase, an assignment of all the applicant's rights under the lease may sometimes be adequate security, although a first mortgage on the property and an assignment of the owner's royalty rights may also be required. Ordinarily, also, the applicant will be required to make an arrangement satisfactory to the Corporation by which the Corporation will receive a reasonable percentage of all receipts received by or due to the applicant on account of the sale of ore taken from the property on which the loan is based; and an assignment of a favorable milling, smelting, sales, or transportation contract may also be required. The following may also be acceptable to the Corporation as additional security: a first mortgage on chattels, an assignment of current accounts or notes receivable, trade accept-

ances, warehouse receipts on ore or metals stored in bonded warehouses, or a first lien on other assets of sound marketable value.

#### **5. Compliance with N.R.A. Code**

Each applicant must execute a certificate that it is complying with and will continue to comply with the approved code of fair competition for the type of operation being conducted by the applicant, or, if there be no approved code of fair competition for the business in which the applicant is engaged, that it has signed, and is complying with or will continue to comply with, the President's Reemployment Agreement promulgated under authority of section 4(a) of the National Industrial Recovery Act and/or any other agreement promulgated by the President under 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 its 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 and/or any other agreement promulgated by the President under the National Industrial Recovery Act. In the event that invitations for bids are issued by the applicant, or by its 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 its agreement as the Corporation may require.

#### **6. Charges, Commissions, Bonuses, Fees, Etc.**

Payment of bonuses, fees, or commissions for the purpose of, or in connection with, obtaining loans is prohibited. The borrower, however, subject to the prior approval of the Corporation, may be allowed to pay the actual reasonable costs incurred in connection with 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 loans 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.

### **7. 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 compensation for service regarded by the Corporation as reasonable) made by partnership or individual applicants, without the consent of the Corporation.

### **8. Audits and Appraisals**

An independent audit of the applicant and an appraisal of the properties involved by a reputable mining engineer, both satisfactory to this Corporation, and made as of a date not more than 6 months preceding the date of the filing of the application, will be required in connection with each application.

### **9. Deposit to Cover Cost of Examination**

The applicant will be required, upon request by the Corporation, to make a deposit, in an amount to be determined in each case by the Corporation, to cover the cost of any field work which may be necessary in connection with the examination of the property of the applicant. Such examination will not be undertaken until the required deposit is made.

### **10. Method of Filing Application**

Applications should be filed direct with the Reconstruction Finance Corporation at its office at 1825 H Street NW., Washington, D.C. No applications will be considered unless submitted on the proper forms, which may be obtained by writing to the Washington office of the Corporation.

### **11. Acts of Congress Applicable to Loans of the Character Herein Described**

The following section of Public Act No. 417, Seventy-third Congress, applicable to loans of the character referred to in this Circular, is quoted for the information of applicants:

SEC. 14. The Reconstruction Finance Corporation is authorized and empowered to make loans upon adequate security, based on mineral acreage to recognized and established incorporated agencies, individuals, and partnerships engaged in the business of mining, milling, or smelting of ores.