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CIRCULAR No. 15
(REVISED)

OF THE

RECONSTRUCTION
FINANCE CORPORATION

INFORMATION
REGARDING LOANS TO INDUSTRY
IN CONJUNCTION WITH BANKS AND OTHER
LENDING INSTITUTIONS



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INFORMATION REGARDING LOANS TO INDUSTRY IN CONJUNCTION WITH BANKS AND OTHER LENDING INSTITUTIONS

In addition to its power to make loans directly and independently to industrial borrowers (as provided in Reconstruction Finance Corporation Circular No. 13, Revised), this Corporation is authorized to purchase participations in such loans to be made by banks or other lending institutions (herein collectively referred to as "banks"), and to make commitments for the future purchase (at the option of the participating banks) of participations in such loans. This Corporation is also authorized to make such loans directly to industrial borrowers in cooperation with banks.

We believe that this Corporation can be helpful to industrial borrowers and to banks, both through the direct and immediate purchase of participations in industrial loans, and through the execution of agreements evidencing commitments to purchase such participations in the future at the option and upon the demand of the participating bank.

The sale of any participation to this Corporation is *without liability on the part of the bank as endorser or guarantor*.

Through such commitments, which may extend to 80 percent, or in the case of immediate participations, even to 90 percent of the loan, banks may secure both complete protection against loss, and complete liquidity, as to the major portion of each such loan, while at the same time continuing their normal relations with their customers and extending to their customers adequate credit.

It is believed that through use of this Corporation's deferred commitments, banks may find it possible to make idle or unprofitable surplus funds available to local industries at a satisfactory net return, without undue risk to the participating bank, and without the impairment of liquidity usually incident to the making of loans intended to be amortized over a period of one or more years, and secured in large part by mortgage on industrial properties.

I. PURCHASE OF, AND AGREEMENTS TO PURCHASE, PARTICIPATIONS IN LOANS TO INDUSTRY

A. IN GENERAL

1. *Bank holds collateral until actual purchase of participation.*—In all cases in which this Corporation enters into an agreement to purchase a participation, the bank will be permitted to hold the note and collateral until this Corporation has actually purchased and paid for the participation, and to deal with them in the customary manner, except that it may not, without the prior written consent of this Corporation, change any terms of the loan, or change or release any of the collateral, except upon full payment of the loan.

2. *Upon payment by R. F. C. for participation, collateral is sent to Federal Reserve Bank.*—Upon the closing of the sale of a participation to this Corporation, and payment therefor by this Corporation, either at the time of the making of the loan or at any time thereafter, the note of borrower and the collateral therefor will be deposited, against such payment, with the Federal Reserve Bank for the bank's district, to be held by the Federal Reserve Bank as Custodian for this Corporation.

3. *The loan will be disbursed to the borrower by the participating bank only when and as authorized by this Corporation.*

B. IMMEDIATE PURCHASE OF PARTICIPATIONS

If the applicant bank so requests, this Corporation, if it approves the application, will pay for its participation simultaneously with the closing of the loan to the industrial borrower, or immediately upon receipt of the papers evidencing such closing. The amount of this Corporation's participation in a loan will be such percentage of the loan as shall be requested by the bank and found acceptable to this Corporation. Such participations commonly cover from 50 percent to 90 percent of the loan. No charge is made for such participation agreements.

C. COMMITMENTS FOR DEFERRED PARTICIPATION AT OPTION OF PARTICIPATING BANK

1. *Terms of agreement.*—In case the applicant bank shall so request, this Corporation, if it approves the application, will execute an agreement that for a stated period (generally covering either 1 year or 2 years after date of borrower's note), it will hold itself in readiness to purchase a specified participation in the loan, and will within 10 days after demand of the bank, made within such stated period, purchase and pay for its agreed participation in the loan, or in the portion thereof then outstanding. Where a need is shown, this Corporation will consider applications for agreements to purchase participations within periods extending up to 5 years from the date of the borrower's note, but not beyond the date of the final maturity of the note. Under each such participation agreement the bank has the right to call upon this Corporation to take up its participation in the loan at any time within the period fixed by the agreement, upon the specified 10 days' notice to this Corporation. Such agreements provide for an option to this Corporation to purchase the participation, or the entire loan, as specified in section I-C-4 of this circular.

2. *Charges of this Corporation for deferred participation agreements.*—This Corporation's charges for such commitments are at the rate of 2 percent per annum on the daily balances of this Corporation's outstanding conditional commitment to purchase a participation in the disbursed loan (that is to say, on the daily balances of that portion of the disbursed loan to borrower which this Corporation is under commitment to purchase but has not yet purchased), and are payable quarterly. There is reserved to the participating bank the right to

cancel the agreement by 30 days' written notice to this Corporation, charges terminating upon the effective date of such cancelation.

3. *Payment for participation.*—Upon purchase of its participation, this Corporation will pay to the bank the amount of its agreed participation in the loan theretofore disbursed (and not theretofore repaid) with interest at the rate fixed in the note, computed from the date of the loan (or any later date to which interest has been paid) to the date of such purchase.

4. *Reserved rights of this Corporation.*—This Corporation reserves the right to purchase its participation or the entire note from the bank without the request of the bank, whenever, during the term of the agreement, it deems such action desirable in its own interest, and the right to purchase the bank's remaining interest in the note, if it deems such action desirable in its own interest. If this Corporation exercises its option to purchase the bank's remaining interest in the note, it is required to pay the bank a sum equal to the bank's remaining interest in the unpaid principal amount of the loan, plus accrued interest thereon to date of purchase.

D. CONDITIONS AND REQUIREMENTS

1. *In general.*—Commitments for the purchase of participations will be made by this Corporation by agreement with one or more banks. The character, conditions, purposes, and terms of the loan are required to be in conformity with Section 5d of the Reconstruction Finance Corporation Act, as amended (copy of which is appended to this circular), and with this Corporation's policies regarding such loans. This Corporation's Circular No. 13 (revised) should be consulted for more detailed information as to this Corporation's practice and requirements as to loans of this character. This Corporation will not purchase or agree to purchase participations in loans already made by banks.

2. *Rates of interest.*—Interest to be paid by the borrower on loans in which this Corporation will purchase, or agree to purchase, participation, must be at such rates as shall from time to time be fixed by this Corporation.

3. *Applications.*—Application forms and notes, to be used by industrial borrowers in applying for and evidencing such loans from banks, will be supplied by this Corporation through its Loan Agencies, and must be used in order to qualify a loan for purchase of a participation therein by this Corporation. The Corporation will also supply through such Agencies application forms to be used by banks, requesting this Corporation to purchase, or to make agreements to purchase, participations in such loans. The same forms will be used whether the applicant bank requests this Corporation immediately to purchase, or to make an agreement to purchase, such a participation.

4. *Administration and servicing of loans.*—After purchase of a participation, this Corporation will be authorized to receive payments upon the note and collateral, and to discharge the borrower to the extent of such payments, but ordinarily will transact through the participating bank all business and negotiations relating to the loan. Promptly upon receipt of any payments, this Corporation will remit to the bank its pro rata share, after making any necessary adjustments

for amounts due between this Corporation and the bank. While the note is held by the Federal Reserve Bank as custodian, this Corporation reserves the right, in its own name, to bring suit upon the note or to bring foreclosure proceedings with respect to all or any part of the collateral, but shall not, without the prior written consent of the bank, change any terms of the note, or change or release any collateral, except upon full payment of the loan. However, at the option of this Corporation, the bank may, subsequently to the purchase by this Corporation of its participation in the note, hold such note and the collateral therefor as trustee for this Corporation and itself, under terms to be agreed upon.

5. *Expenses.*—The bank may not charge any bonus, fee, or commission in connection with making the loan, or make any charge for servicing the borrower's note or the collateral.

6. *Further information.*—Banks are referred to the several Loan Agencies of this Corporation for further information, and for copies of this Corporation's forms of agreements for immediate and deferred participations.

II. DIRECT LOANS TO INDUSTRY IN COOPERATION WITH BANKS

This Corporation is prepared to enter into agreements with one or more banks whereby this Corporation will make a loan, of the character described in Circular No. 13 (Revised), directly to an eligible industrial borrower in consideration of the making of a loan or loans to the same borrower at the same time by a bank or banks. Both this Corporation and the bank will use their own application forms and notes, respectively, the borrower executing a note payable to each lender for the amount advanced by such lender. The application forms to be used in applying for such loans from this Corporation will be its forms for applying for direct loans, which are available at the local Loan Agencies of this Corporation.

III. 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 prospective applicant banks and borrowers from such banks:

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 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 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.

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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.

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(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.