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CIRCULAR No. 2  
OF THE  
RECONSTRUCTION  
FINANCE CORPORATION

INFORMATION FOR RAILROADS AND RECEIVERS  
THEREOF DESIRING TO APPLY FOR LOANS  
UNDER THE RECONSTRUCTION  
FINANCE CORPORATION ACT



FEBRUARY, 1932

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UNITED STATES  
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## RECONSTRUCTION FINANCE CORPORATION

### INFORMATION FOR RAILROADS AND RECEIVERS THEREOF DESIRING TO APPLY FOR LOANS UNDER THE RECONSTRUCTION FINANCE CORPORATION ACT

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Loans may be made by the Reconstruction Finance Corporation (a) to aid in the temporary financing of railroads and railways engaged in interstate commerce; (b) to railroads and railways in process of construction; and (c) to receivers of such railroads and railways; subject to the following limitations:

1. The board of directors of the Reconstruction Finance Corporation must be of the opinion that such railroads or railways are unable to obtain funds upon reasonable terms through banking channels, or from the general public, and that the Corporation will be adequately secured.

2. Loans must have the approval of the Interstate Commerce Commission, and the form of obligation and terms and security therefor must comply with the requirements of the Interstate Commerce Commission and of the Corporation.

3. The maturity of the loans may not exceed three years.

4. Loans may not be made for the purpose of initiating, setting on foot, or financing any enterprise not initiated, set on foot, or undertaken prior to January 22, 1932.

5. Loans to any one corporation and its subsidiary or affiliated organizations may not exceed at any one time \$100,000,000.

6. No fee or commission shall be paid by any applicant for a loan under the provisions of the Act in connection with any application or any loan made or to be made under the Act, and the agreement to pay or payment of any such fee or commission is unlawful.

7. The applicant must consent to such examinations as the Corporation may require and that reports of examinations by the Interstate Commerce Commission, or other constituted authorities, may be furnished to the Corporation upon request therefor.

8. Statements and valuations of securities offered by or in behalf of an applicant are subject to all of the governing provisions of the Act, and all such provisions should be read and studied by the individual or individuals making such statements or valuations.

#### Form of Application

No special form of application is required. Nine copies of each application should be filed, three copies, including one signed original, to be delivered to the Reconstruction Finance Corporation at its office at 1825 H Street NW., Washington, D. C., and the remaining six copies to be delivered to the Interstate Commerce Commission, Washington, D. C. Representations and material in support of applications should be arranged in the following order, as uniformity in presentation will expedite consideration:

1. Designation of applicant:

(a) If a receiver, or receivers, full title, with date of appointment, qualification, and court having jurisdiction.

(b) Full corporate name of railroad, with states of incorporation and dates of incorporation.

(c) Whether applicant is engaged in interstate commerce, with essential facts.

(d) Whether applicant is a railroad in process of construction.

2. The name, title, and address of the person with whom conferences or correspondence should be had with respect to the application.

3. State whether applicant can secure the necessary funds in whole or in part from any other source and, if so, upon what terms. If not, the efforts which have been made and the reasons for this situation should be stated, giving full details of all negotiations undertaken.

4. Consent of applicant to such examinations as the Corporation may require for the purposes of the Act and/or that reports of examinations by constituted authorities may be furnished by such authorities to the Corporation upon request therefor.

5. Statement that no agreement has been or will be made by the applicant to pay any person, association, firm, or corporation, either directly or indirectly, any commission or fee for the loan applied for and that no such payments have been or will be made by the applicant.

6. The purpose of the loan and uses to which it will be applied, and the date or dates on which the funds must be available to



the applicant. (Note limitations of the Act with respect to new enterprises.)

7. The present status of the applicant's existing financial relations with the United States as to—

(a) Loans made to the applicant and the security therefor: (1) Under Federal control; (2) under section 210, Transportation Act, 1920; and (3) under section 5 of the Reconstruction Finance Corporation Act of January 22, 1932.

(b) Claims under section 209, Transportation Act, 1920, and the security pledged therefor.

(c) Claims on account of deficits under section 204, Transportation Act, 1920.

(d) Payments made by the applicant on account of excess net railway operating income under paragraph 6 of section 15a of the Interstate Commerce Act, and securities pledged for indebtedness under that section. Give present status of proceedings before Interstate Commerce Commission.

(e) Any other debits or credits existing between the applicant and the United States other than mail pay, transportation of troops, or income tax matters.

8. State whether applicant desires the entire amount of the loan for the full term applied for. If so, full particulars should be given.

9. The latest valuation placed by the Interstate Commerce Commission upon applicant's property, separately stated for owned carrier and noncarrier property, and date as of which valuation was determined, together with the aggregate net property changes to the latest date to which such changes have been reported to the Bureau of Valuation.

10. State whether any subsidiary or affiliated organization of the applicant, or any organization of which the applicant is a subsidiary, has applied for or received loans from the Reconstruction Finance Corporation. If so, full particulars should be given.

11. State whether the applicant has become a party to the marshaling and distributing plan, 1931, of the Railroad Credit Corporation. If not, the reasons therefor should be given.

12. Comparative statement, by months, to date, of the amounts paid to the Railroad Credit Corporation derived from the increases in freight rates permitted by the Interstate Commerce Commission in Ex parte No. 103.

13. Comparative monthly estimate of the maximum and minimum revenues received and expected to be received from the increases in freight rates permitted by Ex parte No. 103.

14. State whether the applicant has applied for or received loans from the Railroad Credit Corporation, or whether the applicant intends to apply for such loans. If so, full particulars should be given.

15. Statement of principal commodities carried, and statement of ten most important industries served.

16. Statement in detail as to the particular facts upon which applicant relies as to its present and prospective ability to repay the loan and to discharge its obligations in regard thereto.

17. Detailed description of the security to be offered for the loan. The applicant must furnish full information, together with copies of documents, and data appropriate to the security offered. The applicant should state its opinion of the value of any collateral offered and the basis for that opinion.

18. Schedules A to R, below:

#### SCHEDULE A

Miles of line owned; miles operated, subdivided as to first track, other main tracks, yard track and sidings, and total all tracks operated; also, the principal termini of the road operated. State number of units of locomotives, freight cars, and passenger cars, owned and leased.

#### SCHEDULE B

(a) Comparative income account for the years ended December 31, 1921 to 1931, inclusive, and for each subsequent month of 1932, so far as available, in the form prescribed in Schedule 300-I of annual report form for steam roads, together with an estimate of such income, showing the basis therefor, for the remaining months of the current year. State whether the amounts reported include revenues from increases in freight rates permitted by the Interstate Commerce Commission in Ex Parte No. 103.

(b) The total dividends declared and the total dividends paid for each of the years indicated under (a) preceding.

(c) Comparative statement of expenditures for maintenance of (1) way and structures and (2) equipment for the years ended December 31, 1921 to 1931, inclusive, together with estimates for the year ended December 31, 1932, and the basis of such estimates.

(d) For the years indicated in (a) above, details of dividend income (account 513), income from funded securities (account 514), income from unfunded securities and accounts (account 515), and miscellaneous income (account 519).

NOTE.—The data required by paragraphs (a), (c), and (d) above must give effect to any restatement of the accounts which has been made by the Interstate Commerce Commission.

#### SCHEDULE C

(a) State whether any corporation or corporations, transportation or other, hold control over the applicant. If control is so held, (1) the form of control, whether sole or joint; (2) the name of the controlling corporation or corporations; (3) the manner in which control was established; (4) the extent of control; (5) whether control is direct or indirect; and (6) the name of the intermediary through which control, if indirect, was established.

(b) State whether any individual, association, or corporation holds control, as trustee or otherwise, over the applicant. If control is so held, (1) the name of the individual or trustee; (2) the name of the beneficiary or beneficiaries for whom the trust is maintained; and (3) the purpose of the trust.

#### SCHEDULE D

Statement of comparative general balance sheets as of December 31, 1921 to 1931, inclusive, and as of the close of the latest month for which figures are available. Use the Interstate Commerce Commission's annual report form, Schedules 200-A and 200-L.

#### SCHEDULE E

Details of capital stock. Large roads should use the Interstate Commerce Commission's annual report form, Schedule 251. Small roads should use Schedule 690.

#### SCHEDULE F

Details of long-term debt: Large roads should use the Interstate Commerce Commission's annual report forms, Schedules 261-M, 261-E, 261-P, 262, 263, and 275. Small roads should use Schedules 670 and 902. A list of the mortgages, pledges, or other liens should be given, together with a brief statement concerning each, indicating

the property or securities encumbered; the mortgage limit per mile, if any; and particulars as to priority and as to whether "open," "closed," or "open-end." If practicable, one copy each of all mortgages, deeds of trust, or other similar instruments pertinent to the loan requested should be furnished; it will be necessary to furnish only one copy to the Interstate Commerce Commission and one copy to the Corporation.

#### SCHEDULE G

Details of loans and bills payable: Large roads should use the Interstate Commerce Commission's annual report form, Schedule 271. Small roads should use Schedule 901. Class II and III roads should report in detail items in excess of \$10,000 and \$5,000, respectively. Information on bank loans must include name of lending banks, amounts, maturities, interest rate of obligation, and security therefor.

#### SCHEDULE H

Details of loans and bills receivable. The Interstate Commerce Commission's annual report form, Schedule 223, should be used. Class II and III roads should report in detail items in excess of \$10,000 and \$5,000 respectively.

#### SCHEDULE I

State whether or not the applicant is under obligation as guarantor or surety for the performance by any other corporation, association, firm, or individual of any agreement or obligation. If so, particulars should be given.

#### SCHEDULE J

Details of other unadjusted debits. The Interstate Commerce Commission's annual report form for large roads, Schedule 228, should be used.

#### SCHEDULE K

Details of other unadjusted credits. The Interstate Commerce Commission's annual report form for large roads, Schedule 286, should be used.

#### SCHEDULE L

The par value of securities of other companies, owned, pledged, and unpledged, listing each class of securities separately, showing purposes for which such securities are pledged.

## SCHEDULE M

Comparative statement for the four years ended December 31, 1931, of the amount charged to operating expenses under depreciation accounts, separately for way and structures and equipment, and the estimated amount of such charges for the year 1932, and subsequently by years during the period for which the loan is desired. State whether applicant has received or applied for authority to charge amortization depreciation and, if so, the basis and reasons for such accounting.

## SCHEDULE N

An estimate of (a) nonoperating income, and (b) deductions from gross income, as defined and classified under Schedule 300-I of the Interstate Commerce Commission's annual report form for large roads, for the term of the loan applied for, stating under each account the basis of the estimate.

## SCHEDULE O

Statement in detail of applicant's probable fixed charges and appropriations of income and surplus for the year ended December 31, 1932, and subsequently by years during the period for which the loan is desired.

## SCHEDULE P

If a loan is requested for any construction purpose other than ordinary additions and betterments, copy of complete engineering estimates of costs and time required for completion, contracts, maps, etc., should be furnished.

## SCHEDULE Q

If an advance is requested for financing an ordinary program of additions and betterments, file list giving description and estimated cost for all items involving gross expenditures in excess of \$10,000, supporting detail regarding any very large special items, the sum total involved, discussion of benefits of program as a whole, and extent to which program is under way.

## SCHEDULE R

Applicant should furnish a carefully prepared monthly forecast for 1932 showing the cash balance at the beginning of each month

and the cash receipts and disbursements, stating controlling factors used in making estimates.

NOTE.—In connection with all comparative statements supporting the application, substantial fluctuations should be explained. Omit cents from all financial and statistical statements. One complete set only of applicant's annual reports to stockholders since December 31, 1920, should be furnished to the Interstate Commerce Commission and one set to the Reconstruction Finance Corporation with application.

#### Legal Requirements

19. Applicants other than receivers are required to furnish with the application the following papers:

(a) Documents evidencing the legal power and authority of the applicant to enter into the obligations and give the security contemplated by the application and showing what corporate action by stockholders, directors, or otherwise will be required to validly exercise such powers. This data will generally include special statutes, charters, by-laws, or certified extracts of the same, showing the corporate powers, etc., of the applicant.

(b) Preliminary opinion of counsel that he is familiar with the corporate powers of the applicant, that the applicant is authorized to apply for the loan, and that when proper corporate action has been taken and the obligations executed, and security delivered as contemplated by the application, such obligations will constitute the valid and subsisting obligations of the applicant duly secured by a first and paramount lien on the same, or by a lien of the rank and priority stated in the application. Such opinion should also cover the validity and lien of each item of the collateral offered.

(c) Certified copy of resolutions of applicant's board of directors or executive committee will be required showing the authority of the officers to execute and deliver the application.

20. When and if the application is approved, the following papers will be required for deposit with the security:

(a) Resolutions of the board of directors or executive committee of the applicant, and where necessary, of meetings of the stockholders, authorizing the execution and delivery of the obligations of the applicant evidencing the loan and pledge of the security described therein, pursuant to and under the terms of the application, and authorizing the designated officers to receive and receipt for the proceeds of the loan.

(b) Certificate of election and present incumbency in office of officers designated in the foregoing resolutions, such certificate to contain specimen signatures of such officers and to be duly acknowledged before a notary public.

(c) Final opinion by counsel for the applicant to the effect that he is familiar with the corporate powers of the applicant; that the applicant is authorized to execute and deliver the notes or other obligations evidencing the same, and to pledge and hypothecate the securities described in the application; that the notes or other obligations so executed and so delivered constitute the valid and binding obligations of the applicant, secured by the collateral described in the application and indicating that the Corporation will obtain a lien on such security of the rank and priority stated in the application. Such opinion should also cover the priority and lien of each item of the collateral offered.

21. In the case of applications by receivers, the application should be accompanied by the following:

(a) Certified copy of the order of court authorizing the receiver to make the application.

(b) Opinion of counsel for the receiver that such receiver is properly qualified and acting, and that he is authorized to make the application; that the court appointing such receiver has jurisdiction and may legally authorize execution of the obligations and pledge of the security as contemplated by the application; that if and when proper decree or order of the court is entered, the receiver or receivers will be authorized to execute such obligations or give the security contemplated in the application. Such opinion should also cover the priority and lien of each item of the collateral offered.

(c) If and when the application of the receiver is approved by the Corporation, the receiver will be required to deposit with the Corporation certified copies of the court orders and decrees authorizing him to execute and deliver the obligations, and to give the security under and according to the terms of the application, together with final opinion of counsel as to the validity of the obligation and the lien of the corporation upon the security so pledged. Such opinion should also cover the priority and lien of each item of the collateral offered.

22. Under special circumstances, additional legal documents and information may be required.

ACKNOWLEDGMENT AND VERIFICATION

23. The application should be executed in the name of the applicant by the authorized officers and its corporate seal affixed and attested. It should be acknowledged in the usual form and verified as follows with appropriate changes and omissions in the case of receivers:

STATE OF -----

COUNTY OF -----, ss:

----- makes oath and says that he is the ----- of the ----- (Title)

----- that he has carefully examined each and all of the statements contained in the foregoing application; that they are true and correct to the best of his knowledge and belief; that the foregoing application is made with the approval and at the direction of the board of directors or executive committee of said applicant, as appears by resolution adopted at a meeting of said board, a certified copy of which is attached to the said application, said meeting having been held at -----

----- on the ----- day of -----, 1932, and that he is the person who has been authorized by said board to execute the foregoing papers and any others which may be required in connection with the loan.

----- (Signature of affiant)

Subscribed and sworn to before me, a ----- in and for the State and County above-named, this ----- day of -----, 1932.

[SEAL.] -----

My commission expires -----

