

Reconstruction Finance Corporation

LOAN POLICY



November 27, 1951

LOAN POLICY BOARD

STUART SYMINGTON, *Administrator, Chairman*

PETER I. BUKOWSKI, *Deputy Administrator, Vice Chairman*

JOHN W. SNYDER, *Secretary of the Treasury*

CHARLES SAWYER, *Secretary of Commerce*

RECONSTRUCTION FINANCE CORPORATION LOAN POLICY BOARD

POLICY STATEMENT NO. 1

APPROVED AUGUST 7, 1951, AS AMENDED ¹

The purpose of this document is to establish the principles and policies to be followed by the RFC in the conduct of its lending operations, including participations in loans.

The general policies are contained in Part I. These general policies incorporate the statutory requirements of the RFC Act and expressions of Congressional intent as to the manner in which the loan operations of the Corporation should be conducted. In addition, there are included various standards, implementing the statutory provisions and the expressions of Congressional intent.

In the pursuit of the objectives of the RFC Act, the general policies of the RFC shall, to the maximum extent possible, be correlated with the general programs and policies of the Federal Government such as the present anti-inflation and defense mobilization programs. Accordingly, Part II of this statement of loan policies prescribes additional loan standards to be followed during the present period of mobilization and rearmament. The standards in Part II are not in substitution for, but are supplemental to, the general standards embodied in Part I.

These standards for loan policies are not intended to and cannot be automatically operative in each individual case. Accordingly, appropriate instructions and interpretations will be issued from time to time to the several managers of RFC loan agencies.

PART I. GENERAL LOAN POLICIES

A. General Objectives

All loans by the RFC must be of such character as to accomplish one or more of the stated objectives of the RFC Act, namely, to aid in financing agriculture, commerce, and industry, to encourage small business, to help in maintaining the economic stability of the country, and to assist in promoting maximum employment and production.

B. Specific Statutory Restrictions

All loans by the RFC must at all times meet the following requirements of the RFC Act:

- (1) That no financial assistance be extended unless the credit requested is not otherwise available on reasonable terms. No loan shall be made in competition with private sources of credit. Loans shall not be made to an applicant where credit is available from private sources unless the terms, in-

¹ As amended August 23, 1951.

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GEOLOGICAL SURVEY





cluding the interest rate at which the credit is so available, are clearly unreasonable. In most cases, it should be insufficient to find only one commercial bank unwilling to grant the loan. The applicant should show why he should not dispose of a marketable asset in order to obtain all or any portion of the funds needed.

(2) That all securities and obligations purchased and all loans made be of such sound value or so secured as reasonably to assure retirement or repayment.

(3) That all loans made and all obligations and securities purchased, except those of public governmental agencies, mature in ten years or less.

(4) That in agreements with banks to participate in loans wherein the Corporation's disbursements are deferred, the amount of the Corporation's participation be limited to 70 percent of the balance outstanding at the time of disbursement in those cases where the total amount borrowed is \$100,000 or less, and be limited to 60 percent of such amount in those cases where the total amount is over \$100,000.

(5) That no loan shall be made to any state, or political subdivision thereof, for the payment of ordinary governmental expenses as distinguished from specific public projects.

(6) That loans to common carriers, such as railroads and airlines, must meet the standards set by the regulatory agencies, specifically the Interstate Commerce Commission and the Civil Aeronautics Board, in addition to the usual standards for all RFC loans.

(7) That loans to financial institutions must meet standards set by the Treasury and are subject to Treasury approval.

(8) The objective in emergency disaster lending should be to relieve the hardships attendant upon such disasters. Such loans are not required to meet all the credit standards governing loans for normal purposes.

(9) That no director, officer, attorney, agent, or employe of the Corporation participate directly or indirectly in the deliberation upon or determination of any question affecting his personal interests.

C. Implementation of Basic Statutory Provisions

In addition to meeting the general objectives and requirements of the RFC Act, all loans shall be made in accordance with the following principles:

(1) The primary consideration in determining whether to grant a loan shall be the interest of the general public rather than the interest of the individual borrower.

(2) Loans shall not be granted which in effect would promote monopoly.

(3) In carrying out the objectives of the RFC Act, particular consideration shall be given to the credit needs of small business enterprises.

D. Particular Types of Loans Which Do Not Qualify

(1) No loan shall be made to "bail out" creditors, i.e., to pay off creditors who are inadequately secured or likely to sustain a loss.

(2) No loan shall be made primarily to refinance an existing debt.

(3) No loan shall be made for effecting a change in the ownership of

a going business or for purchasing an interest in such business.

(4) Except in the cases of loans for the construction of military and defense housing and housing in critical areas, no loans shall be made for acquiring, constructing or improving real property which is to be held for investment.

(5) No loan shall be made for speculative investments or purchases.

(6) No loan shall be made to an eleemosynary institution.

(7) No loan shall be made to any newspaper, magazine, radio broadcasting companies or other similar organizations.

(8) No loan shall be made for providing capital to an enterprise engaged in the business of lending.

(9) No loan shall be made for operating an establishment whose income is derived in whole or in part from gambling or from rental of the premises for gambling or from rental of the premises for gambling purposes.

(10) No loan shall be made for operating an establishment whose income is derived predominately from the sale of alcoholic beverages.

PART II. LOAN POLICY IN PRESENT EMERGENCY

In addition to the loan policies prescribed in Part I hereof, the following principles shall be effective during the present period of defense mobilization and rearmament:


(1) All loans by the RFC must assist, expedite, increase or maintain the production of goods or services necessary to meet either military requirements or essential civilian requirements.

(a) The receipt of a "certificate of necessity" for accelerated tax amortization or the receipt of a defense contract (either a prime contract or subcontract) or a purchase order by the Borrower or the existence of a national shortage of a commodity or service or proof of a regional (normal market area) shortage so great that minimum needs cannot be met at reasonable prices may be considered as evidence that the loan is for a defense purpose or an essential civilian requirement.

(b) Loans for the maintenance of existing production, processing, and orderly distribution of goods and services which are customarily recognized as necessities as distinguished from luxuries, may be considered loans for essential civilian requirements.

(c) Loans for conversion to essential production may be considered in the interest of national defense.

(2) In each instance it should be determined as far as possible whether granting a loan will or will not be inflationary. For a loan to be considered non-inflationary, the finding should indicate that the loan will produce either an increased supply of essential goods or services or the prevention of a decrease.



LEO NIELSON
Secretary

RFC Loan Agencies are located at the following addresses:

- ATLANTA 3, Georgia**
Healey Building
57 Forsyth Street
- BIRMINGHAM 3, Alabama**
Comer Building
2nd Avenue & 21st Street
- BOSTON 9, Massachusetts**
50 Congress Street
- CHARLOTTE 2, North Carolina**
317 South Tryon Street
- CHICAGO 4, Illinois**
208 South LaSalle Street
- CLEVELAND 1, Ohio**
Federal Reserve Bank Building
East 6th Street & Superior Avenue
- COLUMBIA 1, South Carolina**
Federal Land Bank Building
- DALLAS 2, Texas**
Rio Grande National Building
251 North Field Street
- DENVER 2, Colorado**
Railway Exchange Building
17th & Champa Streets
- DETROIT 26, Michigan**
Griswold Building
1214 Griswold Street
- HOUSTON 2, Texas**
City National Bank Building
Main Street & McKinney Avenue
- JACKSONVILLE 2, Florida**
Graham Building
24 Laura Street
- KANSAS CITY 6, Missouri**
Federal Reserve Bank Building
10th Street & Grand Ave.
- LITTLE ROCK, Arkansas**
Pyramid Building
Second & Center Streets
- LOS ANGELES 13, California**
417 South Hill Street
- LOUISVILLE 2, Kentucky**
139 South 4th Street
- MINNEAPOLIS 2, Minnesota**
Minn. Federal Savings & Loan Bldg.
607 Marquette Avenue
- NASHVILLE 3, Tennessee**
Nashville Trust Building
315 Union Street
- NEW ORLEANS 12, Louisiana**
348 Baronne Street
- NEW YORK 6, New York**
143 Liberty Street
- OKLAHOMA CITY 2, Oklahoma**
Commerce Exchange Building
130 Northwest Grand Avenue
- OMAHA 2, Nebraska**
Woodmen of the World Building
14th & Farnum Streets
- PHILADELPHIA 7, Pennsylvania**
Lincoln-Liberty Building
Broad & Chestnut Streets
- PORTLAND 5, Oregon**
Pittcock Block
921 Southwest Washington Street
- RICHMOND 19, Virginia**
Southern States Building
627 East Main Street
- ST. LOUIS 1, Missouri**
Arcade Building
- SALT LAKE CITY 1, Utah**
Dooly Building
109 West Second South
- SAN ANTONIO 5, Texas**
Transit Tower
310 South St. Mary's Street
- SAN FRANCISCO 4, California**
130 Sutter Street
- SEATTLE 4, Washington**
Central Building
810 Third Avenue
- SPOKANE 8, Washington**
Columbia Building
First & Howard Streets

The Corporation also has Offices located at the following addresses:

- Helena Branch of
Spokane Loan Agency**
- Power Block
Main Street and 6th Avenue
P. O. Box 177
Helena, Montana**
- Phoenix Branch of
Los Angeles Loan Agency**
- 514 West Adams Street
Phoenix, Arizona**
- Puerto Rican Branch Office
of Jacksonville Loan Agency**
- Banco de Ponce Building
300 Tanca Street
P. O. Box 4512
San Juan, Puerto Rico**
- Anchorage Branch of
Seattle Loan Agency**
- Fourth Avenue Building
Anchorage, Alaska**