# THE RFC 75% PROGRAM

CHARLES B. HENDERSON*

The Reconstruction Finance Corporation, hereafter called RFC, was set up by Congress in January, 1932, to help stem the tide of the depression, and began operations on February 2, 1932. Originally, it was given a capital of $500,000,000 and authority to borrow $1,500,000,000 more. The scope of RFC's functions has been expanded and modified from time to time by amendatory and supplemental legislation and its borrowing authority increased accordingly.

Recently RFC adopted the Blanket Participation Agreement (BPA) program. This is the most attractive participation offer that has been made by that Government institution and is undoubtedly the most progressive move ever made by that organization. Up to July 31, 1945, about 1,364 banks have requested permission to qualify under the program.

The BPA program in effect provides for a practically automatic guaranty of 75% (or such lesser percentage as may be requested by the bank) of loans made by approved banks to business enterprises which meet the requirements of the agreement. Such loans would be made by banks upon terms and conditions satisfactory to them without the necessity of filing loan applications with the RFC.

RFC took this action in order to adequately and promptly care for the large volume of applications for loans which it is anticipated may develop during and subsequent to the period of conversion from a war-time to a peace-time economy.

Industry by this action should be assured of the availability of sufficient credit to carry on in war production and to convert effectively to peace-time production. The Directors of RFC hope that it will also encourage private banking to assist in creating and developing new commercial and industrial enterprises in the post-war period. In this way, business both small and large is benefited and full employment is encouraged.

It is and always has been the policy of the Corporation to carry on its business in a manner which fosters private enterprise and avoids competition with banks. It is in furtherance of this established policy that the plan herein described has been made available to banks and industry.

In order to qualify for protection under this new arrangement, a bank will

* LL.B., 1895, LL.M., 1896, University of Michigan. Began practice at Elko, Nevada, 1896; District Attorney of Elko County, Nevada, 1901-05; member Nevada legislature, 1905-07; regent, University of Nevada, 1907-17; appointed member United States Senate, January 4, 1918, by Governor Emmet D. Boyle to fill vacancy until election, caused by death of Francis G. Newland, and elected November, 1918, for the unexpired term ending 1921; member, Board of Directors, Reconstruction Finance Corporation, 1934-41; Chairman of the Board since July 1, 1941.

make application for a Blanket Participation Agreement to the Loan Agency of the Reconstruction Finance Corporation serving the territory in which the bank is located. The application will be submitted to the Directors of the Corporation and if approved the Agency Manager will execute the Agreement.

Thereafter, a bank desiring to make a loan under the protection of the Agreement will first submit to the Agency Manager a schedule of the salaries and other compensation of the officers and key men of proposed borrower and an agreement concerning increases of compensation, as provided in Paragraph 2(f) of the Participation Agreement. (A determination that salaries and other compensation are reasonable is a statutory requirement of the RFC Act.) If such salaries and other compensation are found by the Agency Manager to be reasonable and the proposed loan meets the requirements of the Agreement, it will be automatically covered by the Agreement upon notice to the Loan Agency on a simple, one-page form.

The charge for the protection afforded by the Participation Agreement is payable quarterly at the rate of ¾ of one percent per annum where the percentage of loan covered exceeds 50% and otherwise at ½ of one percent per annum.

Loans coming under the protection of this Agreement, which may cover any number of loans, shall not exceed at any time an aggregate outstanding balance of $250,000 to any one borrower and shall have a maturity of not more than ten (10) years with principal payments aggregating annually not less than 10% of the original amount of the loan, such payments to begin not more than six months after first disbursement and to be made at intervals of not more than three months. A loan for a shorter period with a balloon payment at maturity would be acceptable provided the principal payments aggregate annually not less than ten percent (10%) of the original amount of the loan.

Loans that are guaranteed in whole or in part by any other Government Department or Agency are not eligible for protection under the Blanket Participation Agreement.

The bank, so long as it is the holder of the note, shall administer and service the loan, using reasonable care and due diligence properly to safeguard and protect the interests of both the bank and the RFC. However, due to statutory requirements, any upward adjustment of the compensation of borrower's officers and key men must have the prior written approval of the Agency Manager.

A "Business Enterprise" is defined under this Blanket Participation Agreement as any business privately owned and operated for profit which assists in maintaining and promoting the economic stability of the country, or encourages the employment of labor. It is intended to include all industrial or commercial concerns, regardless of the nature of their legal entities, involved in the manufacturing, distributing and marketing of products, but not any charitable, religious or social agencies or societies and other similar organizations. Nor is it intended to include concerns constructing residential properties or individuals purchasing or building homes; nor farmers for the purpose of purchasing farms, or for the production of crops, the raising, breeding or fattening of livestock, or any other type of agricultural activity. As a matter of general policy, this Corporation takes the position that its facilities should not be offered where a loan purpose clearly is within the province of the Farm Credit Administration or the Federal Housing Administration.

The Agreement relates to any new loan made by the banks subsequent to the execution of the Agreement (a) not in excess of $250,000, in which the bank takes at least a 25% new money participation, (b) maturing not more than ten years from the date of first disbursement, (c) repayable in installments aggregating each year not less than ten percent of the principal amount of the loan, and (d) satisfying the following conditions:

(1) The aggregate unpaid principal amount of loans to any one borrower shall at no time exceed $250,000.

(2) No portion of the loan is in any manner guaranteed or participated in by any department, establishment, instrumentality or other agency of the United States except of course the RFC under the BPA.

(3) Salaries of officers, directors, etc., of the borrower have been approved by RFC Loan Agency Manager.

(4) The note is to provide for interest at not in excess of four percent on RFC's portion and at not in excess of six per cent on the bank's portion.

The bank must receive, prior to disbursement of the loan, a certified statement of borrower's financial condition, as of date not more than three months prior thereto, showing that borrower had assets aggregating an amount in excess of borrower's total liabilities.

The loans must be secured by validly pledged collateral having an appraised value (deemed reasonable by bank) in excess of the unpaid balance of the loans.

No part of the proceeds of such loans can be used directly or indirectly in payment of indebtedness of the borrower to the bank incurred prior to the making of the loan, except with the prior written consent of the RFC Loan Agency Manager.

There is a voluntary purchase privilege in the Agreement for both the bank and RFC. Periodic reports are required on disbursements and repayments.

Banks cannot directly or indirectly charge or receive any bonus, fee or commission or expense in any form in connection with the making of the loan except such charges and expenses for actual services. Nor shall the bank charge or receive a fee or commission on RFC's portion of the loan for a commitment to make a loan, without the prior written consent of RFC.

Neither the bank nor RFC can sell or assign its interest in any loan under the Agreement without the prior written consent of the other party.

The bank holds the note and collateral, except that RFC reserves the right to demand the transfer thereof to RFC if and when it is called upon to take up its participation.

The holder of the note administers and services all loans under the Agreement.

The Agreement can be terminated by either party upon ten days' notice to the other party with respect to loans authorized by bank subsequent to the date specified in the notice of termination.

Under this plan, RFC indicates its willingness to share the responsibility and risk to rehabilitate small business. RFC wants to support the banks of the country in a program of sound, long-term credit, particularly to small business on terms as favorable as those enjoyed by big business. RFC also wants private enterprise to get its credit through normal banking channels.

Under this Agreement it is believed that banks can safely take a major part in supplying needed credit to deserving borrowers (competent business people who need the funds for some constructive purpose serving the economy of the country) in the transition and post-war periods by making such loans themselves, without RFC prior approval, and with requisite safety to their depositors.

A bank can make a loan under this Agreement on its own conditions provided the borrower is solvent and the loan secured.

This new, simplified Deferred Participation is further evidence of the consistent desire of the RFC to cooperate with banks in making credit available to industry. The simplicity of this procedure and the fact that the handling of the loan is in the bank's hands make it very attractive to banks desiring this service.

The thirty-one Loan Agencies of RFC will continue to receive applications for direct loans and for participations in loans that are not eligible for protection under the Blanket Participation Agreement.

RFC has three forms of bank participation loans in addition to the BPA: (1) where RFC makes a loan and sells a portion of it to a bank, (2) where a bank makes a loan and sells an immediate participation to RFC, and (3) where a bank makes a loan in connection with which RFC agrees that upon demand of the bank, it will at any time prior to sixty days after maturity, purchase for cash an agreed percentage of the loan. The latter form is known as a Deferred Participation and in practical effect is equivalent to a guaranty covering the agreed percentage of the unpaid balance of the loan.

RFC's loan authorizations, other than for war purposes, have been more than $12,000,000,000. Its authorizations for war work have been $30,000,000,000. It has authorized over 22,400 loans to business enterprises, aggregating in excess of $2,700,000,000. More than 15,000 of these loans have been for amounts of $25,000 or less, and more than 7,000 of them for amounts of $5,000 and under.

RFC borrows from the U. S. Treasury all of the money it lends and pays interest on it. It pays its own operating expenses, and in other than its war loans and investments, has operated at a net profit to the taxpayer after ample allowance for losses or probable losses. It has been the friend of all kinds of business—little and big.

Those desiring additional information on the Blanket Participation Agreement or any of RFC's other business loan programs should contact the RFC Loan Agency serving the territory concerned.

RFC has Loan Agencies located in Atlanta, Ga.; Birmingham, Ala.; Boston, Mass.,; Charlotte, N. C.; Chicago, Ill.; Cleveland, Ohio; Dallas, Texas; Denver, Colo.; Detroit, Mich.; Helena, Mont.; Houston, Texas; Jacksonville, Fla.; Kansas City, Mo.; Little Rock, Ark.; Los Angeles, Calif.; Louisville, Ky.; Minneapolis, Minn.; Nashville, Tenn.; New Orleans, La.; New York, N. Y.; Oklahoma City, Okla.; Omaha, Neb.; Philadelphia, Pa.; Portland, Oreg.; Richmond, Va.; St. Louis, Mo.; Salt Lake City, Utah; San Antonio, Texas; San Francisco, Calif.; Seattle, Wash.; Spokane, Wash.