

# CHAPTER XV—FEDERAL RESERVE SYSTEM

## REG. V—Loan guarantees for defense production.

### REG. V—LOAN GUARANTEES FOR DEFENSE PRODUCTION

#### Sec.

1. Authority.
2. Objectives of Federal Reserve System.
3. Procedures.
4. Responsibility of Federal Reserve Banks.
5. Rates and fees.
6. Reports.
7. Supplement.

**AUTHORITY:** Sections 1 to 7 issued under sec. 301, 704, 64 Stat. 800, 816; 50 U.S.C. App. 2091, 2154, E.O. 10480, 3 CFR, 1949-1953, Comp., p. 962, unless otherwise noted.

**SOURCE:** Sections 1 to 7 contained in Regulation V, 15 F.R. 6630, Oct. 3, 1950, unless otherwise noted.

#### Section 1 Authority.

This regulation is based upon and issued pursuant to the Defense Production Act of 1950 (referred to in this regulation as the "act"), and Executive Order No. 10480, dated August 14, 1953, as amended (3 CFR 1949-1953 Comp., p. 962) (referred to in this regulation as the "order"), and after consultation with the heads of the guaranteeing agencies designated in the act and the order; namely, the Department of the Army, the Department of the Navy, the Department of the Air Force, the Department of Commerce, the Department of the Interior, the Department of Agriculture, the General Services Administration, the Atomic Energy Commission, the Defense Supply Agency, and the National Aeronautics and Space Administration. [31 F.R. 13444, Oct. 18, 1966]

#### Sec. 2 Objectives of Federal Reserve System.

In carrying out its functions under the act and the order, it will be the objective of the Federal Reserve System to facilitate and expedite to the greatest extent possible the financing of contractors, subcontractors, and other persons having contracts or engaged in operations deemed by the guaranteeing agencies to be necessary to expedite production and deliveries or services under Government contracts for the procurement of materials or the performance of services for the national defense. The Board of Governors of the Federal Reserve System (referred to in this regulation as the "Board") and the Federal Reserve Banks will cooperate fully with the guaranteeing agencies in order to achieve this objective and will follow in general and to the extent applicable procedures developed from experience obtained in the administration of the V-loan and T-loan programs during World War II.

#### Sec. 3 Procedures.

(a) *Applications.* Any private financing institution may submit to the Federal Reserve Bank of its district an application for a guarantee of a loan to an eligible borrower. Such application shall be in such form and contain such information as the Board may prescribe after consultation with the guaranteeing agencies.

(b) *Eligibility of borrower.* No loan shall be guaranteed unless it shall first be determined that the contract or other operation of the prospective borrower to

be financed by such loan is one which is deemed by the guaranteeing agency involved to be necessary to expedite production and deliveries or services under a Government contract for the procurement of materials or the performance of services for the national defense. Such determination will be made in each case by a duly authorized certifying officer of the appropriate guaranteeing agency or in such other manner as the guaranteeing agency may prescribe. The determination will be made upon the basis of information contained in the application and accompanying papers filed by the applicant financing institution, unless in the circumstances of a particular case it appears that further information is necessary.

(c) *Approval of guarantees.* Each application by a financing institution for a loan guarantee will be subject to approval by the appropriate guaranteeing agency in Washington or, to such extent as the guaranteeing agency may prescribe, by the Federal Reserve Bank to which the application is submitted. In any case in which an application is required to be submitted to Washington for approval, the Federal Reserve Bank will transmit the application, together with all necessary supporting information and the recommendation of the Federal Reserve Bank, through the Board of Governors to the guaranteeing agency involved. Subject to determination of the borrower's eligibility, if the application is approved by a duly authorized contracting officer of the guaranteeing agency, such contracting officer will authorize the Federal Reserve Bank to execute and deliver the guarantee on behalf of the guaranteeing agency. Such authorization will be transmitted to the Federal Reserve Bank through the Board of Governors; and, thereupon, the Federal Reserve Bank, acting as fiscal agent of the United States, will execute and deliver the guarantee on behalf of the guaranteeing agency in accordance with the terms of the authorization. In any case in which the Federal Reserve Bank is authorized by a guaranteeing agency to approve applications for guarantees, the Reserve Bank, if it approves the application and subject to determination of the borrower's eligibility, will execute and deliver the guarantee without submission of the application for prior approval by any officer of the guaranteeing agency; but the Reserve Bank will promptly

notify the guaranteeing agency of the execution of such guarantee.

(d) *Other forms and procedures.* The Board will prescribe from time to time, after consultation with the guaranteeing agencies, forms to be followed in the execution of guarantees pursuant to this regulation and such other forms as may be necessary. The Board will also prescribe, after consultation with the guaranteeing agencies, procedures with respect to such matters as the purchase of guaranteed loans by the Federal Reserve Banks as fiscal agents, the handling and disposition by the Federal Reserve Banks of guarantee fees and other fees collected, and such other procedures as may be found necessary.

#### Sec. 4 Responsibility of Federal Reserve Banks.

A Federal Reserve Bank in arranging for or making any guarantee on behalf of any guaranteeing agency will be expected to make reasonable efforts to afford such guaranteeing agency the best available protection against possible financial loss consistent with the obtaining of national defense production expeditiously. No Federal Reserve Bank however, shall have any responsibility or accountability except as agent in taking any action pursuant to or under authority of the act, the order, or this regulation. Each Federal Reserve Bank will be reimbursed by each guaranteeing agency in the usual manner for all expenses and losses incurred by the Reserve Bank in acting as agent on behalf of such guaranteeing agency, including among such expenses, notwithstanding any other provision of law, attorneys' fees and expenses of litigation.

#### Sec. 5 Rates and fees.

Rates of interest, guarantee fees, commitment fees, and other charges which may be made with respect to guaranteed loans and guarantees executed through the agency of any Federal Reserve Bank under this regulation will from time to time be prescribed, either specifically or by maximum limits or otherwise, in section 7 (the Supplement) by the Board of Governors after consultation with the guaranteeing agencies.

[31 F.R. 13444, Oct. 18, 1966]

#### Sec. 6 Reports.

Each Federal Reserve Bank shall make such reports as the Board of Governors shall require with respect to its opera-

tions pursuant to the terms of the act, the order and this regulation.

### Sec. 7 Supplement.

Pursuant to the provisions of the Defense Production Act of 1950 and Executive Order No. 10480, dated August 14, 1953, as amended, the Board of Governors of the Federal Reserve System hereby prescribes the maximum rate of interest, guarantee fees, and commitment fees which may be charged with respect to guaranteed loans executed through the agency of any Federal Reserve Bank:

(a) *Maximum rate of interest.* The maximum interest rate charged a borrower by a financing institution with respect to a guaranteed loan shall not exceed 7½ percent per annum, except that the agency guaranteeing a particular loan may from time to time prescribe a higher rate if it determines the loan to be necessary for the purpose of financing any contractor, subcontractor, or other person in connection with the performance of any contract or other operation deemed by the guaranteeing agency to be necessary to expedite production and deliveries or services under Government contracts for the procurement of materials or the performance of services for the national defense.

(b) *Guarantee fees.* The schedule of fees with respect to guaranteed loans is as follows:

Percent of loan guaranteed	Guarantee fee (percent of interest payable by borrower on guaranteed portion of loan)
70 or less.....	10
75 .....	15
80 .....	20
85 .....	25
90 .....	30
95 .....	35
Over 95.....	40-50

In any case in which the rate of interest on the loan is in excess of 6 percent, the guarantee fee shall be computed as though the interest rate were 6 percent.

(c) *Commitment fees.* In any case in which a commitment fee is charged a borrower with respect to a guaranteed loan, such fee shall not exceed one-half of 1 percent per annum. In any such case, the financing institution will pay to the guaranteeing agency a percentage of such commitment fee, based on the guaranteed portion of the credit, equal to the same percentage of the interest payable on the loan which is required to be paid by the financing institution to the guarantor as a guarantee fee.

(50 U.S.C. App. 2153) [31 F.R. 13445, Oct. 18, 1966, as amended at 35 F.R. 9812, June 16, 1970]