ORIGIN/ACTION

ARA-10

RM/R	REP	AF
1	1	
ARA	EUR	FE
NEA	CU	INR
		5
E	P	IO
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L	FBO	AID
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AGR	COM	FRB
	10	3
INT	LAB	TAR
TR	XMB	AIR
3	4	
ARMY	CIA	NAVY
3	20	5
OSD	USIA	NSA
29		3
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DEPARTMENT OF STATE

AIRGRAM

FN 6-1 BRAZ
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A-309 UNCLASSIFIED
NO.

HANDLING INDICATOR

TO : Department of State 1966 OCT 7

INFO : Amembassy BRASILIA. Amcongens São Paulo, Recife. Amconsuls Belém, Belo Horizonte, Curitiba, Porto Alegre, Salvador

OCT 5 1966

FROM : Amembassy RIO DE JANEIRO DATE: September 29, 1966

SUBJECT : "Industrial Hospital" for Temporary Financial Aid to Firms in Need of Working Capital

REF : CERP D

1. Emergency assistance through the Federal Savings Banks (Caixas Econômicas Federais) to business corporations suffering a lack of working capital owing to a surplus of fixed assets is provided by Decree-law No. 13 of July 18, as regulated by Decree-law No. 21 of September 17. Attached are free translations of the two measures which together establish the structure of what Minister of Planning Roberto Campos terms "the emergency hospital for sick industries."

2. Under the new mechanism, the National Monetary Council will authorize the Central Bank to supply resources "for working capital and to normalize the operation of companies" to the Savings Banks at a maximum interest rate of six percent a year and for a minimum period of six months. In turn, the Savings Banks will make loans (no ceiling is specified) to approved borrowers at monthly interest rates not exceeding one percent of the value of the loan. The Central Mortgage Department of the Savings Banks has informed the Embassy that interest will be collected at the rate of 12 percent a year and that fees will range from 7 to 10 percent. Thus, the annual cost to the borrower will be a minimum of 19 percent and a maximum of 22 percent of the loan value. The Mortgage Department estimates the interval between submission of a loan proposal and signing of the contract at 45 days.

3. Proposals for loans must first be presented to the Bank of Brazil, which will forward approved proposals to the Savings Bank nearest the head office of the soliciting firm with its recommendation as to the

Enclosures: As stated.

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Drafted by: ECON/COMM:HBiggane:DDHamerman:ia

Contents and Classification Approved by: ECON:RBElwood

Clearances:

amount to be lent. This amount may be lowered by the Savings Bank on the basis of its appraisal of the value of the company property (not essential to company operations) required to secure the loan. Transactions are contingent on commitment by the borrower to sell the pledged property within 180 days from the signing of the loan contract, for at least its value as appraised by the Savings Bank. The Savings Bank may also demand supplementary guarantees in the form of first mortgages on real estate owned personally by the company's directors, partners, or stockholders, or owned by affiliated companies or by third parties, up to the limit necessary for the satisfactory liquidation of the loan. If the sale is not executed and the loan repaid within 180 days, the Savings Bank will sell the property at public auction. The borrowing firm and its affiliated companies must also commit themselves not to distribute dividends, profits or bonuses to their directors, partners, or stockholders while the debt is unpaid. At the time the contract is signed the Savings Bank may advance up to 30 percent of the total of the loan. Also, at this time the borrower pays a single commission of 0.5 percent of the value of the loan to the Bank of Brazil for its services in studying and recommending the transaction.

4. On the sale by the borrower of the property guaranteeing the loan, a down payment of at least 20 percent is to apply on payment of the debt. Preference is to be given to bidders who offer cash payment. To facilitate the transaction, the respective Savings Bank may finance the third party purchaser for the balance of the purchase price during a period not in excess of four years, in accordance with its mortgage terms, preference being given to purchasers who require the least financing and the shortest periods for repayment. With the sale of the real estate, responsibility for repayment of the loan is transferred to the buyer of the property, who is to repay the Savings Bank within four years, at an interest rate not in excess of one percent a month, plus the fees of the Savings Bank. In the event of sales on an installment basis, monetary correction of the value of the debt shall be applied in accordance with National Economic Council indexes applicable to Readjustable Treasury Bonds. The auctioneer's commission, which may not exceed 0.5 percent of the value of the bid, shall be paid by the successful bidder.

5. Should the proceeds from the auction not equal or exceed the value of the property as appraised by the respective Savings Bank, the property will be auctioned a second time at a 20 percent reduction in its appraised value, and will be sold to the highest bidder. After repayment of the Savings Bank, the balance of the proceeds may be turned over to the original borrower or, if the latter has petitioned in a creditors' agreement or bankruptcy, the balance is to be deposited with the competent judge.

6. The Savings Banks may also finance, through credits derived from their respective commitments to sell, companies who obligate themselves to sell to their employees residential units built more than 180 days prior to sale, for a period not in excess of ten years, at the service and interest rates prevailing in the Savings Bank Mortgage Departments.