



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ERNEST G. DRAPER
MEMBER OF THE BOARD

August 29, 1942.

Dear Marriner:

You have undoubtedly received by now the telegram which I sent you but I want to add one or two words of explanation about the whole matter.

The last two or three days have been rather anxious ones for us because, after Mr. Whitney and his associates had assured Mr. Rounds that they were generally in agreement with the War Department's suggestions regarding rates, etc., it seems that on the following morning Mr. Campbell of the Chase called up Mr. Whitney and protested against the schedule as tentatively agreed upon the day before. I should state here that the War Department schedule was as follows:

<u>Amount</u>	<u>Guarantee</u>	<u>Exposure</u>
250 Million	50%	125 Million
500 "	75%	125 "
750 "	85%	112.5 "
1 Billion	90%	100 "

The Chase Bank's suggestions were as follows:

300 Million	65%	105 Million
625 "	80%	125 "
Over 625 "	90%	100 "

The dilemma which Mr. Rounds faced was that although the banks were very close to a definite agreement, nevertheless this last minute action on the part of the Chase was a jarring note which showed signs of irritating both sides and generally getting the proposition off the track. As a matter of fact, I know from personal conversations that the War Department people were discouraged because they felt that they had gone pretty far in meeting everyone's suggestions and they did not like to break down a schedule of rates that appeared so fair to them.

In a confidential talk with Cleveland at his house on Tuesday evening I urged that the War Department attempt some conciliatory gesture of some modest kind even though it were a slight one because we all felt sure that the other banks were ready to go forward and it seemed a shame to hold up the whole proceedings at the last moment.

Whether or not this off the record and general suggestion was accepted or not I do not know but in any event on the next day, Wednesday, the War Department slightly revised its amount of guarantee in the 85% bracket so that the final offer which they were willing to agree to was as follows:

<u>Amount</u>	<u>Guarantee</u>	<u>Exposure</u>
250 Million	50%	125 Million
500 "	75%	125 "
650 "	85%	97.5 "
Over 650 "	90%	100 "

Apparently all the banks, including the Chase, which were in the preliminary discussions believed this was such a fair compromise on the part of the War Department that they definitely accepted this proposal without much further discussion. They also informed Mr. Rounds that they thought they had tentatively lined up about 190 of the banks and that these banks would undoubtedly bear the major part if not all of the burden. You remember that this is a considerably less number than the 250 or possibly the 400 or more banks which G. M. originally said might be necessary in order to make this program a success.

By this act we have gotten over the hump in the negotiations although it is true that there will be others of relatively minor importance. For instance, the banks intimated that since they had agreed to the above schedule they wanted G. M. to sweeten up the arrangement which they had with Mr. Donaldson Brown with reference to the banks' commitment on the unused portion of funds. You may remember that the original and tentative arrangement on this point was that the banks would agree to charge a commitment fee only on that portion of the unused funds which were unguaranteed. From what Mr. Rounds said, I gathered that the banks were now going to try to persuade the G. M. to liberalize this part of the agreement and include a portion or all of the unused funds whether they were guaranteed or not. All of us down here are skeptical about the G. M. agreeing to any such arrangement, but after all that is none of our business and we are keeping strictly silent about the whole matter. In fact, I want to say to you at this point that we have all kept scrupulously aloof from the actual negotiations in every way because we realized that the responsibility for the success or failure of these negotiations was up to the New York Bank and that we should not attempt to interfere by any action on our part with their efforts. We have done just that, and I must say that I believe that Mr. Rounds and the others who have assisted him in New York deserve a great deal of credit for the skillful way in which they have conducted the whole affair. Also, Mr. Rounds made it a point to get in touch with us every day and sometimes two or three times a day in order to tell us exactly what was going on so that we

felt at all times in close touch with the negotiations even though we were not actively represented in them.

I am afraid this long letter will bore you, but I had to get it off my chest because naturally we are all pretty happy about this affair particularly when you realize that this is the largest loan which was ever negotiated in behalf of a private concern since the world began!

Good luck to you, Marriner, and hoping that you are getting lots of sleep and exercise and relaxation, believe me, as always,

Yours cordially,

Ernest

Honorable Marriner S. Eccles,
First Security Bank of Utah, N.A.,
Ogden, Utah.