

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

July 9, 1945.

Honorable James Forrestal,
Secretary of the Navy,
Washington, D. C.

My dear Jim:

Mr. Snyder, Federal Loan Administrator, brought to my attention a short time ago a proposal, which I understand you and Under Secretary of War Patterson had discussed with him, involving the transfer to the RFC of the guaranteeing functions of the War and Navy Departments and Maritime Commission under the "V" and "T" loan program, with the Federal Reserve Banks acting as the field agents for the RFC.

After looking into this matter I have discussed it with the members of the Board of Governors and with the Presidents of the twelve Federal Reserve Banks. They unanimously feel that the adoption of the proposal is unnecessary and would be inadvisable.

If, when the "V" and "T" loan programs reach the stage of liquidation, a change is felt to be desirable, the programs could be transferred to the Federal Reserve System. There would be more reason for transferring the liquidation phase of the programs to the Reserve System than to the RFC, since the Federal Reserve Banks are entirely familiar with the loans and are now servicing them.

If, however, it should be decided to carry out the present proposal to transfer the guaranteeing functions to the RFC, the members of the Board and the Presidents of the Reserve Banks all feel that the entire program should be turned over to the RFC and the Federal Reserve Banks and the Board relieved of all responsibility in the matter. To have two different organizations handling the program in the field and two different boards handling it in Washington would obviously involve much duplication and would be most confusing and impractical.

I discussed this matter again with Mr. Snyder this morning, and I enclose herewith for your information a copy of a memorandum which I gave to him on the subject that states the position of the Federal Reserve System in the matter. Mr. Frank E. McKinney, Assistant Director

Honorable James Forrestal

-2-

of Contract Settlement, sent to me on July 2nd a copy of a memorandum which he had addressed to Colonel Paul Cleveland of the War Department with regard to this matter and I also enclose herewith a copy of that memorandum.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures

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7/9/45

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

July 9, 1945.

Honorable Robert P. Patterson,
Under Secretary of War,
Washington, D. C.

My dear Judge Patterson:

A short time ago Mr. Snyder, Federal Loan Administrator, brought to my attention a proposal, which I understand you and Secretary Forrestal had discussed with him, involving the transfer to the RFC of the guaranteeing functions of the War and Navy Departments and Maritime Commission under the "V" and "T" loan program, with the Federal Reserve Banks acting as the field agents for the RFC.

I had not previously heard of this proposal, but we were later furnished with a copy of a memorandum prepared by Colonel Paul Cleveland, Chief of the Advance Payment and Loan Branch of the Special Financial Services Division of the War Department, under date of June 13, 1945, from which it appears that Colonel Cleveland had been actively considering this matter since February and had discussed it on numerous occasions with representatives of other agencies including the RFC and the Navy Department.

Colonel Cleveland's memorandum contains a number of statements with respect to the Federal Reserve System which are inappropriate and uncomplimentary. I think that these statements and his activities in making the proposal, without revealing it to the Federal Reserve System, were most unfortunate because such actions cause unnecessary friction and misunderstanding.

After looking into this matter I have discussed it with the members of the Board of Governors and also with the Presidents of the twelve Federal Reserve Banks. They unanimously feel that the adoption of the proposal is unnecessary and would be inadvisable.

If, when the "V" and "T" loan programs reach the stage of liquidation, a change is felt to be desirable, the programs could be transferred to the Federal Reserve System. There would be more reason for transferring the liquidation phase of the programs to the Reserve System than to the RFC, since the Federal Reserve Banks are entirely familiar with the loans and are now servicing them.

If, however, it should be decided to carry out the present proposal to transfer the guaranteeing functions to the RFC, the members of the Board and the Presidents of the Reserve Banks all feel that the entire program should be turned over to the RFC and the Federal Reserve Banks and the Board relieved of all responsibility in the matter. To have two different organizations handling the program in the field and two different boards handling it in Washington would obviously involve much duplication and would be most confusing and impractical.

I discussed this matter again with Mr. Snyder this morning, and I enclose herewith for your information a copy of a memorandum which I gave to him on the subject that states the position of the Federal Reserve System in the matter. Mr. Frank R. McKinney, Assistant Director of Contract Settlement, sent to me on July 2nd a copy of a memorandum which he had addressed to Colonel Paul Cleveland of the War Department with regard to this matter and I also enclose herewith a copy of that memorandum.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures

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Honorable Marriner S. Eccles
Chairman, Board of Governors
Federal Reserve System
Washington 25, D. C.

Dear Mr. Eccles:

Your letter of July 9 relative to the possible transfer to the Reconstruction Finance Corporation of the Guaranteed Loan Program of the War and Navy Departments has been carefully considered within the War Department and has been the subject of discussion between Brigadier General Kenneth C. Royall and Mr. John D. Goodloe of the Reconstruction Finance Corporation.

It is understood that the Reconstruction Finance Corporation does not favor a transfer of the Program at this time. The War Department concurs in this view.

It is possible that there will be a discussion in the future of a plan for transferring to the Reconstruction Finance Corporation new guaranteed loan business. In the event of such discussion the War Department will suggest that your office as well as the Office of Contract Settlement be asked to participate.

I regret that you feel that Colonel Cleveland was uncomplimentary to the Federal Reserve System. I am confident that he did not intend to be. The War Department is most appreciative of your cooperation and efficiency in the entire Guaranteed Loan Program.

Sincerely yours,

(Signed) Robert P. Patterson

Robert P. Patterson
Under Secretary of War.