

FEDERAL RESERVE BANK OF DALLAS

FISCAL AGENT OF THE UNITED STATES

Dallas, Texas, April 20, 1942

WAR FINANCING

To All Banking Institutions, and Others Concerned,
in the Eleventh Federal Reserve District:

There is enclosed a copy of Regulation V of the Board of Governors of the Federal Reserve System, which outlines the functions of the Federal Reserve banks in carrying out the provisions of Executive Order No. 9112, relating to the financing of war production contracts. As explained in our circular letter of April 13, the Executive Order authorizes Federal Reserve banks to act as agents for the War Department, Navy Department and Maritime Commission, and in that capacity to guarantee loans made by financing institutions to contractors, subcontractors and others engaged in war production, or to make loans, advances or commitments for such purposes.

The plan contemplates that the applicant will first take up its credit needs with its commercial bank. When the necessary credit cannot be arranged without the assistance of the War Department, Navy Department or Maritime Commission, the financing institution may apply to the Federal Reserve Bank for a guarantee of a part or all of the proposed financing. This bank will be glad to furnish further information regarding the plan, upon request.

Member banks of the Federal Reserve System are requested to insert this regulation in their ring binders.

Yours very truly,

R. R. GILBERT

President

FOR DEFENSE



BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

WAR FINANCING



REGULATION V

**This Regulation as printed herewith
is effective April 6, 1942**



INQUIRIES REGARDING THIS REGULATION

**Any inquiry relating to this regulation should be addressed
to the Federal Reserve Bank or Federal
Reserve branch bank of the district
in which the inquiry arises.**

REGULATION V

Effective April 6, 1942

WAR FINANCING

SECTION 1. AUTHORITY

This regulation is based upon and issued pursuant to the Executive Order of the President, No. 9112,¹ dated March 26, 1942 (hereinafter referred to as the Executive Order), and various provisions of the Federal Reserve Act, and has been issued after consultation with the Secretary of War, the Secretary of the Navy, and the United States Maritime Commission (hereinafter referred to as Maritime Commission), or their authorized representatives.

SECTION 2. OBJECTIVE OF THE FEDERAL RESERVE SYSTEM

The objective of the Federal Reserve System in carrying out the purposes of the Executive Order is to facilitate and expedite war production, including the obtaining or conversion of facilities therefor, by arranging for the financing of contractors, subcontractors and others engaged in businesses or operations deemed by the War Department, Navy Department or Maritime Commission to be necessary, appropriate or convenient for the prosecution of the war.

SECTION 3. BOARD OF GOVERNORS

The Board of Governors of the Federal Reserve System will cooperate and assist in every way possible in carrying out the provisions of the Executive Order. It will exercise general supervision and direction of the operations of the Federal Reserve Banks under authority of the Executive Order and will prescribe from time to time, after consultation with the Secretary of War, the Secretary of the Navy or the Maritime Commission, or their authorized representatives, such further direction of the Federal Reserve Banks as may be necessary to accomplish the purposes of the Executive Order. All facilities of the Board and of the Federal Reserve Banks will be made available for the purpose of facilitating the financing of business enterprises, including smaller businesses, in order that they may participate more fully in speeding up war production.

SECTION 4. FEDERAL RESERVE BANKS AS FISCAL AGENTS

Federal Reserve Banks, having been designated as fiscal agents of the United States by the Secretary of the Treasury pursuant to the terms of the Executive Order, will cooperate to the fullest extent pos-

¹ The Executive Order is printed in the Appendix.

sible in carrying out expeditiously and effectively the purposes of the Executive Order in accordance with the provisions of this regulation and the instructions of the War Department, Navy Department or Maritime Commission. To this end the Federal Reserve Banks will arrange guarantees and loans in accordance with the provisions of the Executive Order and of the instructions of the War Department, Navy Department or Maritime Commission, respectively, wherever it is believed that they will contribute to the obtaining of maximum war production expeditiously. While the Federal Reserve Banks will make reasonable efforts to afford the War Department, Navy Department and Maritime Commission the best available protection against possible financial loss consistent with this objective, such guarantees or loans should not be denied or substantially delayed when they can be provided in accordance with the instructions of the War Department, Navy Department or Maritime Commission.

Each Federal Reserve Bank should arrange such financing, where practicable, without any guarantee or loan or participation therein by the War Department, the Navy Department or the Maritime Commission, through commercial banks whether or not members of the Federal Reserve System or other financing institutions, or through the Federal Reserve Bank under the provisions of section 13b of the Federal Reserve Act. Where this is not feasible, guarantees by the War Department, Navy Department or Maritime Commission of loans made by such banks or financing institutions to the extent necessary should be used in preference to loans or participations therein by any of these agencies.

SECTION 5. INSTRUCTIONS OF WAR DEPARTMENT, NAVY DEPARTMENT, AND MARITIME COMMISSION

The War Department, Navy Department, and Maritime Commission, after consultation with the Board of Governors of the Federal Reserve System, will issue general instructions with respect to the operations of the Federal Reserve Banks under the Executive Order, including provisions regarding the relationships of the Federal Reserve Banks with liaison officers or other field representatives of such agencies. The operations of the Federal Reserve Banks under the Executive Order shall be conducted in accordance with such instructions.

SECTION 6. RATES

Rates of interest, fees and other charges on loans made or guaranteed in whole or in part by the War Department, Navy Department or Maritime Commission through the agency of any Federal Reserve Bank will from time to time be prescribed, either specifically or by

maximum limits or otherwise, by the Board of Governors of the Federal Reserve System after consultation with the War Department, Navy Department or Maritime Commission, and with the Federal Reserve Banks.

SECTION 7. MATURITIES

With respect to financing of production, except as may be otherwise authorized specifically or by general instructions by the War Department, Navy Department or Maritime Commission, the maturity of any loan made or guaranteed in whole or in part by a Federal Reserve Bank on behalf of any such agency shall be consistent with the needs of the borrower for the fulfillment of the contracts or orders for which the financing is provided. With respect to financing of facilities, the maturity of any loan made or guaranteed in whole or in part by a Federal Reserve Bank on behalf of any such agency shall be as may be agreed upon between the parties concerned but in no case shall such maturity be in excess of five years.

SECTION 8. REPORTS

Each Federal Reserve Bank shall make such reports as the Board of Governors of the Federal Reserve System shall require with respect to its operations pursuant to the terms of the Executive Order and of these regulations.

SECTION 9. GENERAL

The term "loan", as used in this regulation, shall be construed as referring to a loan, discount or advance, including a participation therein, and shall include a commitment to make or purchase such a loan, discount or advance unless otherwise indicated by the context; but such term shall not be construed to include any advance payments made by the War Department, Navy Department or Maritime Commission on a specific contract or on specific contracts.

The term "guarantee" as used in this regulation shall be construed as including a commitment to make such a guarantee unless otherwise indicated by the context.

APPENDIX
EXECUTIVE ORDER NO. 9112

AUTHORIZING FINANCING CONTRACTS TO FACILITATE THE PROSECUTION
OF THE WAR

WHEREAS in order that contracts of the War Department, the Navy Department, and the United States Maritime Commission (hereinafter referred to as Maritime Commission) which are now outstanding or may hereafter be entered into for war production, including the obtaining or conversion of facilities, may be promptly and effectively performed, it is essential that additional facilities be provided through governmental agencies to supply necessary funds to contractors, sub-contractors and others engaged in such war production pursuant to such contracts;

WHEREAS the War Department, the Navy Department, and the Maritime Commission have available to them amounts appropriated by Congress which may be used for the purpose of making or guaranteeing loans, discounts or advances or commitments in connection therewith for the purpose of financing contractors, subcontractors and others engaged in such production or otherwise to expedite war production;

WHEREAS the guaranteeing or making of such loans, discounts, advances and commitments by the War Department, Navy Department and Maritime Commission will be expedited and facilitated by utilizing in this connection the Federal Reserve Banks and the Board of Governors of the Federal Reserve System, which are agencies of the Government exercising functions in connection with the prosecution of the war effort and which have offices and other facilities, including experienced personnel, located conveniently throughout the country and are in close and frequent contact with banking and other financing institutions; and

WHEREAS the guaranteeing or making of such loans, discounts, advances and commitments will greatly facilitate the participation of small business enterprises in war production;

Now, THEREFORE, by virtue of the authority vested in me by the various provisions of the First War Powers Act, 1941, approved December 18, 1941, by all other Acts of Congress and by the Constitution of the United States, and as President of the United States and Commander-in-Chief of the Army and Navy of the United States, and deeming that such action will facilitate the prosecution of the war, I do hereby order as follows:

(1) The War Department, Navy Department and the Maritime Commission are hereby respectively authorized, without regard to the provisions of law relating to the making, performance, amendment or modification of contracts, (a) to enter into contracts with any Federal Reserve Bank, the Reconstruction Finance Corporation, or with any other financing institution guaranteeing such Reserve Bank, Reconstruction Finance Corporation, or other financing institution against loss of principal or interest on loans, discounts or advances, or on commitments in connection therewith, which may be made by such Reserve Bank, Reconstruction Finance Corporation, or other financing institution for the purpose of financing any contractor, subcontractor or others engaged in any business or operation which is deemed by the War Department, Navy Department or Maritime Commission to be necessary, appropriate or convenient for the prosecution of the war, and to pay out funds in accordance with the terms of any such contract so entered into; and (b) to enter into contracts to make, or to participate with any Federal Reserve Bank, the Reconstruction Finance Corporation, or other financing institution in making loans, discounts or advances, or commitments in connection therewith, for the purpose of financing any contractor, subcontractor or others engaged in any business or operation which is deemed by the War Department, Navy Department or Maritime Commission to be necessary, appropriate or convenient for the prosecution of the war, and to pay out funds in accordance with the terms of any such contract so entered into.

(2) The authority above conferred may be exercised by the Secretary of War, the Secretary of the Navy or the Maritime Commission respectively or may also be exercised, in their discretion and by their direction respectively, through any other officer or officers or civilian officials of the War or Navy Departments or the Maritime Commission. The Secretary of War, the Secretary of the Navy, and the Maritime Commission may confer upon any officer or officers in their respective departments or civilian officials thereof the power to make further delegations of such powers within the War and Navy Departments and the Maritime Commission.

(3) Any Federal Reserve Bank or any officer thereof may be utilized, and is hereby authorized to act, as agent of the War Department, the Navy Department, or the Maritime Commission, respectively, in carrying out any of the provisions of this executive order, and the Secretary of the Treasury is hereby directed to designate each Federal Reserve Bank to act as fiscal agent of the United States pursuant to the provisions of section 15 of the Federal Reserve Act in carrying out any authority granted to it by or pursuant to this executive order. In any case in which any Federal Reserve Bank shall make or participate in

making any loan, discount or advance or commitment as agent of the War Department, Navy Department or Maritime Commission under authority of this order, all such funds as may be necessary therefor shall be supplied and disbursed by or under authority from the War Department, Navy Department or Maritime Commission in accordance with such procedure as they may respectively require. Any amounts now or hereafter available under any appropriation act to the War Department, the Navy Department, or the Maritime Commission for the purpose of procuring materials, equipment or supplies, or of expediting production thereof, may be expended through the agency of the respective Federal Reserve Banks in accordance with the provisions of this executive order. In taking any action under any designation or authority given by or pursuant to this paragraph no Federal Reserve Bank shall have any responsibility or accountability except as agent of the War Department, Navy Department, or Maritime Commission, as the case may be.

(4) All actions and operations of any Federal Reserve Bank under authority of or pursuant to the terms of this executive order shall be subject to the supervision of the Board of Governors of the Federal Reserve System and to such directions and conditions as the Board of Governors of the Federal Reserve System may prescribe, by regulation or otherwise, after consultation with the Secretary of War, the Secretary of the Navy, or the Maritime Commission, or their authorized representatives.

(5) The War Department, the Navy Department and the Maritime Commission shall make reports of all contracts entered into by them respectively pursuant to the terms of this executive order, in accordance with the provisions of paragraph 1 of the regulations prescribed in Title II of Executive Order No. 9001 dated December 27, 1941.

(6) Interest, fees and other charges derived by the War Department, Navy Department and Maritime Commission, respectively, from operations pursuant to the terms of this executive order may be held by the Federal Reserve Banks and shall first be used for the purpose of meeting expenses and losses (including but not limited to attorneys' fees and expenses of litigation) incurred by the Federal Reserve Banks in acting as agents under or pursuant to the provisions of this executive order; and to the extent that the amount of such interest, fees or other charges is insufficient for this purpose the Federal Reserve Banks shall be reimbursed for such expenses and losses by the War Department, the Navy Department or the Maritime Commission, as the case may be.

The White House,
March 26, 1942.

FRANKLIN D. ROOSEVELT