

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 20, 1942, at 3:45 p.m.

PRESENT: Mr. Eccles, Chairman  
Mr. McKee  
Mr. Draper  
Mr. Evans

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Wyatt, General Counsel  
Mr. Smead, Chief of the Division of Bank  
Operations  
Mr. Paulger, Chief of the Division of  
Examinations  
Mr. Vest, Assistant General Counsel

ALSO PRESENT: Mr. Sproul, President of the Federal Reserve  
Bank of New York  
Major Paul Cleveland, Expert Adviser to the  
Secretary of War  
Mr. W. John Kenney, Special Assistant to the  
Under Secretary of the Navy and Assistant  
Chief of the Procurement Legal Division

It was stated that this meeting had been called for the purpose of discussing a proposed plan under which the Federal Reserve Banks would act as fiscal agents for the War and Navy Departments and the Maritime Commission in connection with the financing of war production contracts.

At the request of the Board, Mr. Vest stated that the proposal contemplated that an Executive Order would be issued by the President which would authorize (1) the War and Navy Departments and the Maritime Commission, through the agency of the Federal Reserve Banks, to guarantee loans made by commercial banks to contractors and subcontractors in

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connection with war production, (2) the Federal Reserve Banks, under the provisions of section 13b of the Federal Reserve Act and subject to the limitations of that section, to make loans to contractors and subcontractors for war production purposes with or without a guarantee from the Army or Navy Departments or the Maritime Commission, and (3) the War and Navy Departments and the Maritime Commission to make loans to contractors and subcontractors for war production purposes through the agency of the Federal Reserve Banks. He also said that, as there might be some doubt as to the authority for the Executive Order, it was proposed, if possible, to obtain the approval of the Attorney General and the Comptroller General, and at as early a date as possible to have the Executive Order and any actions taken thereunder ratified in a provision which would be included in a deficiency appropriation bill, the Third War Powers Bill, or some other appropriate legislation. Mr. Vest added that, pending the passage of such legislation, if commercial banks were unwilling to accept the proposed guarantee, the Army and Navy Departments and the Maritime Commission would proceed to advance the funds themselves through the agency of the Federal Reserve Banks. He made the further statement that the order contemplated that the Board of Governors would issue regulations covering the operations of the Federal Reserve Banks and that the Secretary of the Treasury would request the Federal Reserve Banks to act as fiscal agents for the War and Navy Departments and the Maritime Commission.

In response to a request for his comments with respect to the

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background of the proposal, Major Cleveland made a statement substantially as follows:

The problem of financing subcontractors has been getting more and more difficult. They are not getting adequate bank accommodations, either because of their small size or more frequently because of the tremendous expansion that has been going on. The Reconstruction Finance Corporation has the power to do the job but just has not been doing it. It has been putting on too many restrictions, and, while it has authorized loans, contractors could not consent to the restrictions. Furthermore, it takes months to clear the loans through the Reconstruction Finance Corporation Office in Washington. The result is that, with the tremendous program facing us and cases coming up every day, some method of financing has to be worked out.

We have been giving strong backing, first to the Mead bill, and later to the proposed Federal industrial corporation bill. At a conference held last Sunday in Mr. Patterson's office, the conclusion was reached that it would be impossible to get the industrial loan corporation over Mr. Jones' objection within anywhere from three to six months. For this reason, the plan referred to by Mr. Vest was proposed. In essence, the Army and Navy Departments and the Maritime Commission would be given power by Executive Order to guarantee or participate in guarantees of loans made by a bank or any other financing institution, including the Reconstruction Finance Corporation. The guarantee would be given through a Federal Reserve Bank as our fiscal agent to the extent desired by the local bank. The proposed order permits us to guarantee the Reconstruction Finance Corporation but provides that only the Federal Reserve Banks shall act as our agents.

The War Department (I am now speaking only for that Department) would guarantee the local bank in part or up to 100 per cent on the basis of two reports, one of which would be a production and price report--whether the man could make money on his contracts. He would furnish that to the liaison officer of the Army in the Federal Reserve district. On the basis of that report and a second report which would be an integrity and management and financial report, furnished as at present by the Federal Reserve Banks, the liaison officer, in the case of guarantees on

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loans up to \$100,000, would give the guarantee immediately and the loan could be made. On the larger loans, the local liaison officer would be allowed, if speed were necessary, to approve a commitment for a two weeks' period probably to the extent of \$50,000. The final approval of the whole commitment would be handled by an operations section in Washington on the basis of the reports furnished by the liaison officer and by the Federal Reserve Banks. Reports of loans guaranteed in the field would be furnished to the Board of Governors and also to the advance payment and loan section of the Office of the Under Secretary of War.

The working of the system from the point of view of policy would be from the top. The Board of Governors would set general regulations with regard to standard security requirements, standard or flexible interest rates, and general matters of policy. These policies would be determined in consultation with a policy committee on which the Army, Navy, Maritime Commission, and the War Production Board would be represented.

There are several advantages to the plan from the point of view of expediting our production, one of which happens to be that tax amortization certificates will be much easier to obtain by a manufacturer where a part of the loan is used for the purpose of additional facilities. The tax amortization section of the Under Secretary's Office has agreed that the reports furnished by the liaison officer will be a sufficient basis on which to issue certificates of necessity.

This type of financing is intended to apply mainly, so far as the Army is concerned, to the small subcontractor or sub-subcontractor and to the medium-size or large contractor who has a large number of orders and needs help. It would not be extended, at least at the present time, to the case of the manufacturer whose whole plant is engaged, for instance, in making gun carriages. In that case we would continue to use our advance payment method for the reason that we are highly decentralized and have found that the use of advance payments is a very useful tool in speeding up the work.

There are many subcontractors producing for the Army and the Navy or for the Navy and the Maritime Commission. There is very little overlapping between the Army and the Maritime Commission. In these cases, the arm of the service for which a majority of the subcontractor's work was being done would be expected, if necessary, to guarantee

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all loans made to the subcontractor. We hope it will not be necessary to pay out any cash, but we will put aside a reserve of approximately 20 per cent of the aggregate of outstanding contracts. On the question of volume, we contemplate that during the coming year approximately \$9,000,000,000 will be required for anywhere from 10,000 to 15,000 contractors. That is a rough estimate. There will be \$18,000,000,000 of subcontracts and about half of them will need money from other than the usual sources. About half of these will need it very badly. This is in terms of working-capital loans primarily and a certain amount of conversion. I am suggesting to the budget people in the War Department that a reserve fund of \$500,000,000 be set up originally out of general appropriations; of course, that could be increased if necessary.

Following references to various details of the proposed plan and to discussions of the plan which had been had with representatives of interested Government agencies, it was stated that a letter transmitting the Executive Order to the President had been drafted for the signature of the Chairman of the War Production Board, the Secretaries of War and Navy, and the Chairman of the Maritime Commission. In response to an inquiry from Mr. McKee, Major Cleveland said that it was expected that the Executive Order would be signed by the President not later than March 23, that the funds would be made available by the War Department by March 25, and that the matter would be presented to the Attorney General tomorrow. He also stated that there were certain urgent cases that should be taken care of promptly, that without waiting for the adoption of formal regulations the War Department could issue guarantees, and that, if the guarantees were not acceptable to commercial banks, the Department could advance funds directly through

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the Federal Reserve Banks.

Mr. Sproul suggested that it would be more satisfactory in such cases to make direct loans without waiting for the negotiation of guarantees.

The procedure that might be followed in such cases was discussed, and Major Cleveland emphasized that it was hoped that the commercial banks would advance the needed funds on the basis of a guarantee and that it would not be necessary for the services to advance any appreciable amount of funds.

In response to an inquiry from Mr. Eccles, the other members of the Board indicated that they saw no objection to the proposed plan and that they would favor making the services of the Federal Reserve Banks available in the manner indicated.

Mr. Sproul inquired whether, if pursuant to the proposed Executive Order the Secretary of the Treasury requested the Federal Reserve Banks to act as fiscal agents for the War and Navy Departments and the Maritime Commission, there would be any legal question as to the authority of the Federal Reserve Banks to act in that capacity.

Mr. Vest replied that there would be no such doubt, whereupon Mr. Sproul stated that there would be no question about the ability of the Federal Reserve Banks to do the work as outlined in the plan.

Chairman Eccles stated that steps should be taken promptly by the System to set up the necessary procedure to handle its responsibilities under the program in the event it was adopted, and he

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suggested that arrangements be made to have representatives of the Federal Reserve Banks come to Washington for a meeting at which the plan, drafts of regulations to be issued by the Board, and instructions to the Federal Reserve Banks could be discussed.

Mr. McKee suggested that Mr. Rounds, First Vice President of the Federal Reserve Bank of New York, and Mr. Newell, of Counsel for the Federal Reserve Bank of Cleveland, be asked to come to Washington immediately for discussions of the matter with members of the Board's staff. This suggestion was concurred in unanimously by the members of the Board.

At this point, Messrs. Wyatt, Smead, Paulger, Vest, Sproul, Kenney, and Cleveland left the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on March 19, 1942, were approved unanimously.

Telegram to Mr. Post, Secretary of the Federal Reserve Bank of Philadelphia, stating that the Board of Governors approves for the Philadelphia Bank, effective March 21, 1942, the rates established by the board of directors of the Bank of 1 per cent on rediscounts and advances for member banks under Sections 13 and 13a of the Federal Reserve Act and 1 per cent on advances to nonmember banks under the last paragraph

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of Section 13 of the Federal Reserve Act, and the re-establishment by the directors without change of the other rates of discount and purchase in the Bank's existing schedule.

Approved unanimously.

Telegram to Mr. Bowman, Assistant Vice President of the Federal Reserve Bank of Atlanta, stating that the Board of Governors approves for the Atlanta Bank, effective March 21, 1942, the rates established by the board of directors of the Bank of 1 per cent on "other" rediscounts and advances for member banks under Sections 13 and 13a of the Federal Reserve Act, 1-1/2 to 6 per cent on industrial advances made direct to industrial or commercial organizations under Section 13b, and a special commitment rate of 1/4 to 1/2 per cent covering unused portions of lines of credit granted to industrial or commercial organizations under Section 13b, and the re-establishment by the directors without change of the other rates of discount and purchase in the Bank's existing schedule.

Approved unanimously.

Telegram to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, stating that the Board of Governors approves for the Dallas Bank, effective March 21, 1942, the rate of 1 per cent established by the board of directors of the Bank on loans and advances for member banks under Sections 13 and 13a of the Federal Reserve Act, and the re-establishment by the directors without change of the other



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rates of discount and purchase in the Bank's existing schedule.

Approved unanimously.

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Messrs. Sanford and Dillard, Secretaries of the Federal Reserve Banks of New York and Chicago, respectively, and Mr. West, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on March 17, by the Federal Reserve Banks of New York and Chicago on March 19, 1942, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules. The telegram to Mr. West contained a further statement as follows:

"Changes recommended in your March 19 wire, which call for lower rate on member bank 15 day advances secured by direct obligations of U. S. and on 90 day rediscounts and advances secured by eligible paper than on 16 to 90 day member bank advances secured by U. S. Government direct obligations and 90 day advances to nonmember banks similarly secured, are receiving consideration."

Approved unanimously.

Letter to the board of directors of the "Bank of Neosho", Neosho, Missouri, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City.

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Approved unanimously, for transmission through the Federal Reserve Bank of Kansas City.

Letter to the Comptroller of the Currency, reading as follows:

"This refers to your letter of March 18, 1942, enclosing proposed letters to Bank of America N. T. & S. A. and the National Bank of Washington, Tacoma, Washington, with respect to waiving the submission of reports covering Transamerica Corporation as a holding company affiliate of the respective banks.

"The Board approves the transmission of these letters, with the understanding, which it feels is implicit in the letters, that the waiver of the reports involved does not affect in any way the position of your office and that of the Board that affiliate relationships do exist between the Transamerica Corporation and the Bank of America N. T. & S. A. and the National Bank of Washington; and with the further understanding that any future waiver of affiliate report requirements involving these institutions will depend upon all circumstances and conditions which may be then existing.

"When the proposed letters go out, please advise the Board so that we can furnish copies to the Federal Reserve Bank of San Francisco in order that Transamerica Corporation may be informed as to the action taken."

Approved unanimously, with the understanding that when a reply was received to the above letter the following letter would be sent to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco:

"There are enclosed for your information copies of correspondence, with enclosures, between the Comptroller of the Currency and the Board of Governors with respect to waiver of submission of reports by Bank of America N. T. & S. A. and the National Bank of Washington, Tacoma, Washington, covering Transamerica Corporation as a holding company affiliate of these banks.

"You are requested to fully advise Transamerica Corporation of the action taken, specifically pointing out

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"that the action covered by such correspondence does not in any way affect the Board's or the Comptroller's views with respect to the holding company affiliate relationships between Transamerica Corporation and Bank of America N. T. & S. A. and the National Bank of Washington.

"It is assumed that the banks mentioned will acquaint Transamerica Corporation with the decisions reached and may furnish it copies of the Comptroller's letters. You are authorized to furnish Transamerica Corporation with a copy of the enclosed letter from the Board to the Comptroller of the Currency, which indicates the interpretation the Board places on the Comptroller's letters to the banks involved. You are authorized also to furnish a copy of such letter to the Chief National Bank Examiner of your district."

Telegram to the Presidents of all Federal Reserve Banks, reading as follows:

"Because of the adoption of Amendment No. 3 to Regulation W, the list of articles on the back of the Statement of Borrower (Form F.R. 564) will be incomplete beginning March 23, 1942. In view of the paragraph which precedes the list of articles on the form, it is not necessary that registrants discontinue the use of the forms which they have on hand, but it would be desirable that the registrants add the new items to the list.

"Accordingly, it would be appreciated if you would suggest to the registrants and other interested persons in your district, by whatever means you deem appropriate, that the following be added to the form by rubber stamp, sticker or other convenient means: 'Articles Added March 23, 1942: Bicycles, Lawn Mowers, Silverware, Watches and Clocks, Photographic Equipment, Floor Coverings.' Of course, it is also desirable that this same addition be made to the form when new supplies are prepared."

Approved unanimously.

Telegram to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

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"Your letter March 17 to Parry. No objection to your releasing information developed from Registration Statements under Regulation W, or such part of this information as you deem to be of interest, provided you clearly indicate figures are only preliminary and subject to correction or revision."

Approved unanimously, with the understanding that copies of the telegram would be sent to the Presidents of all Federal Reserve Banks.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. C. C. C.  
Chairman.