

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, April 11, 1942, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. McKee  
Mr. Draper  
Mr. Evans

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on April 10, 1942, were approved unanimously.

Telegram to Mr. Hays, Vice President of the Federal Reserve Bank of Cleveland, stating that the Board of Governors approves for the Cleveland Bank, effective April 11, 1942, the rate established by the board of directors of the Bank of 1 per cent on advances and discounts to member banks under sections 13 and 13a of the Federal Reserve Act and on advances to nonmember banks under the last paragraph of section 13, the deletion of the rate of 2-1/2 per cent on advances to lenders other than banks under the last paragraph of section 13, and the establishment without change of the other rates of discount and purchase in the Bank's existing schedule.

Approved unanimously.

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Telegram to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, stating that the Board of Governors approves for the Kansas City Bank, effective April 11, 1942, the rate established by the board of directors of the Bank of 1 per cent on advances and re-discounts to member banks under sections 13 and 13a of the Federal Reserve Act, and the establishment without change of the other rates of discount and purchase in the Bank's existing schedule.

Approved unanimously.

Letter to Mr. Meyer, Assistant Cashier of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of Chicago as requested in your letter of April 7, 1942."

Approved unanimously.

Letter to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to that portion of your letter of March 26 regarding the matter of waiving compliance with condition of membership numbered 6 by The Union Savings & Trust Co., Warren, Ohio, which bank was recently admitted to membership.

"Since it is understood that in the State of Ohio trust funds deposited in the banking department of a bank are preferred claims in event of liquidation of the bank, you are authorized, in accordance with the general authorization previously granted by the Board, to waive compliance with condition of membership numbered 6 until further notice.

"From a check of the Board's files it appears that The Richland Trust Company, Mansfield, Ohio, which was

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"admitted to membership in December 1940, is another case in Ohio where compliance with the condition has not been waived, and, of course, you are also authorized to waive compliance with the condition by that bank until further notice."

Approved unanimously.

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

"Board has received from War Department authenticated copy of form of guarantee agreement for operations under Executive Order 9112 together with a letter to the Federal Reserve Banks with respect thereto. This form of guarantee agreement has been prepared by the War Department in consultation with representatives of the Board of Governors and in the light of the suggestions received from the Federal Reserve Banks. Board has also received photostatic copies of certain documents delegating authority for use in this connection within the War Department. Copies of the guarantee agreement authenticated by the Board and photostatic copies of the other documents referred to will be sent to all Federal Reserve Banks today, by air mail where necessary. The text of the letter and form of guarantee agreement are as follows:

"There has been delivered to the Board of Governors of the Federal Reserve System a form of 'Guarantee Agreement with Financing Institution (Other Than Federal Reserve Bank)' identified by the date of April 10, 1942, and duly authenticated by me on behalf of the War Department. The War Department hereby authorizes each Federal Reserve Bank to use this form of guarantee agreement in executing guarantees pursuant to the instructions issued to all Federal Reserve Banks by the Under Secretary of War under date of April 8, 1942. This form may be used in making such a guarantee in cases covered either by paragraph (e) or paragraph (f) of section 3 of such instructions. It is not to be used, however, in cases arising under paragraph (g) of said section 3.

"It is contemplated that the form will be used in most cases in which guarantees are executed by Federal

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"Reserve Banks on behalf of the War Department in accordance with the instructions referred to. However, it is also contemplated that special conditions may be inserted in the guarantee agreement in proper cases. In cases arising under paragraph (e) of section 3 of the instructions referred to, each Federal Reserve Bank is hereby authorized, without obtaining the prior consent of the War Department, to prescribe and agree to such special conditions as, in its judgment, do not effect any basic change in the provisions of the standard form of agreement referred to above. In all other cases any special conditions should be agreed to only after obtaining the prior approval of the Advance Payment and Loan Section of the War Department.

"I am authorized, on behalf of the War Department, to give the advice and authority above set forth. In order to expedite the transmission to the Federal Reserve Banks of the authority contained in this letter, I am delivering the letter to the Board of Governors of the Federal Reserve System with the request that the Board wire a copy thereof to each Federal Reserve Bank together with a copy of the form of guarantee agreement referred to above and that the Board thereafter send to each such bank a photostatic copy of the letter and a copy of the form of guarantee agreement duly authenticated by the Board."

"GUARANTY AGREEMENT  
WITH FINANCING INSTITUTION (OTHER  
THAN FEDERAL RESERVE BANK)

"The War Department of the United States (herein called 'War Department'), acting through the Federal Reserve Bank of \_\_\_\_\_ as fiscal agent of the United States, in accordance with the provisions of Executive Order No. 9112 of March 26, 1942, hereby agrees with the \_\_\_\_\_

(herein called 'Financing Institution') as follows:

"(1) Within ten (10) days after the receipt by the Reserve Bank of written demand made by the Financing Institution, War Department will purchase at face value for cash from the Financing Institution \_\_\_\_\_ per cent of the then unpaid principal amount of a loan which

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"the Financing Institution proposes to make to \_\_\_\_\_ (herein called 'Borrower'), with appropriate adjustment for accrued interest, guarantee fees, and other charges, if any, computed to the date of such purchase, subject to the terms and conditions herein stated, said loan being briefly described as follows:

"(The description of the loan, which may be set forth here or, if necessary, in an attached exhibit, may in appropriate cases include a reference to the several obligations evidencing the loan, the fact that only a part of the agreed amount of the loan is to be initially outstanding, and other relevant factors.)

The War Department shall be obligated to make such purchase only if such written demand therefor by the Financing Institution is made at any time hereafter and not later than the sixtieth day after the maturity of said loan or any renewal or extension thereof made pursuant to the provisions of paragraph (3) of this agreement, or, if the loan is payable on demand, not later than the sixtieth day after demand for payment of such loan.

"(2) Possession of Obligation and Collateral. -

Prior to any purchase under this agreement, the Financing Institution shall hold the obligation or obligations (referred to in this agreement as 'obligation') evidencing said loan, all the collateral therefor and all instruments delivered in connection therewith. In the event of any purchase hereunder, the Financing Institution shall endorse to the Reserve Bank without recourse the obligation evidencing the loan and shall thereafter hold said obligation, collateral and instruments in custody as agent of and for the account of the War Department to the extent of the War Department's interest therein. It shall immediately notify the Reserve Bank of such endorsement and shall recite in such notification that it holds said obligation, collateral and instruments as provided herein. Upon the receipt of such notification, the Reserve Bank shall deliver to the Financing Institution a certificate evidencing the interest, if any, of the Financing Institution in said loan. In any such case,

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"however, upon five (5) days' written demand by the Reserve Bank, the Financing Institution shall deliver possession of said obligation to the Reserve Bank and shall assign and deliver to the Reserve Bank said collateral and instruments, and thereupon the Reserve Bank shall issue to the Financing Institution a receipt evidencing custody by the Reserve Bank of said obligation, collateral and instruments. The War Department shall at all times during the existence of this agreement have the right to examine and inspect said obligation, collateral and all instruments in connection therewith.

"(3) Administration of Loan. - The Holder (as determined under the provisions of paragraph (2) hereof) of said obligation, collateral, and instruments shall receive all payments on account of principal of or interest on said loan and shall promptly remit to the other party to this agreement such other party's pro rata share thereof determined according to the respective interests of the parties in said loan. Except to such extent as may be permitted under this paragraph or paragraph (12) of this agreement, such Holder shall not, without the prior written consent of the other party to this agreement, (a) make or consent to any material alteration in the terms of said obligation, collateral or instruments; (b) exercise any option to accelerate the maturity of the obligation; or (c) make or consent to any release, sale, transfer or substitution of any of said collateral or instruments. However, unless otherwise provided in paragraph (12) of this agreement, such Holder may renew or extend any such obligation, and may make or consent to any release, sale, transfer or substitution of collateral for the purpose of effecting an orderly liquidation of the obligation, unless prior objection thereto shall have been made by the other party; but appropriate notice of any such renewal or extension or action with respect to collateral shall be thereafter promptly transmitted by such Holder to the other party, except that no such notice shall be necessary with respect to the release of collateral in the ordinary course of business pursuant to the terms of the loan agreement between the Borrower and the Financing Institution.

"(4) Failure to Sue or Consent to Suit. - The Financing Institution, if it be the Holder (as determined under



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"the provisions of paragraph (2) hereof) of said obligation, collateral and instruments, shall not, without the prior written consent of the War Department bring suit to enforce payment of said obligation or any installment thereon or foreclose on or otherwise enforce realization of said collateral. If at any time any portion of the principal or interest of said obligation is due and unpaid and (a) the War Department fails to give its consent, within 30 days after receiving a written request from the Financing Institution to do so, to the bringing of a suit to enforce payment of said obligation or any installment thereof or to the foreclosure on or enforcement of all or any of such collateral or (b) if the War Department be the Holder of the obligation and does not, within 60 days after receiving a written request from the Financing Institution to do so, bring such a suit or institute proceedings to foreclose on or enforce all or any such collateral, the War Department shall thereupon in either event be obligated to purchase the entire unpaid principal amount of said loan.

"(5) Protection Against Cancellation of Contract Affecting the Borrower. - If any contract made or order accepted by the Borrower (such contract or order being herein referred to as 'war production contract') constituting a prime contract with the War Department, Navy Department or Maritime Commission, or constituting a contract made or order placed to aid directly or indirectly in the performance of any prime contract with any of said Government agencies shall be cancelled, terminated or violated by reason of the cancellation or termination of any such prime contract for the convenience of the Government, then the percentage of the loan which the War Department is obligated to purchase under paragraph (1) hereof shall be increased as follows: The ratio between (a) the total amount in dollars of the unperformed portions of all war production contracts of such Borrower cancelled, terminated or violated as aforesaid, and (b) the total amount in dollars of all unperformed portions of all war production contracts (including the amount in clause (a)) of such Borrower shall be determined. Such ratio shall then be multiplied by the percentage of the loan which the War Department is under no obligation to purchase under paragraph (1) hereof. The product of such multiplication shall constitute an additional percentage

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"of the loan which shall be added, upon written request by the Financing Institution, to the percentage specified in paragraph (1); and the War Department shall then be obligated to purchase such increased percentage of the unpaid principal amount of the loan. Such written request to be effective must be made promptly after the Financing Institution has knowledge of such termination, cancellation or violation of such war production contract and in no event more than ninety (90) days after cancellation or termination of such prime contract.

"(6) Voluntary Purchase by War Department. - If the percentage of the unpaid principal amount of the loan which the War Department is obligated to purchase under paragraph (1) hereof is in excess of seventy-five (75) per cent, the War Department at any time subsequent to ninety (90) days after the date of the original loan may purchase, and the Financing Institution shall sell, such part or all of the then unpaid amount of said loan as may be specified in a written notice given by the War Department to the Financing Institution at least ten (10) days prior to any such purchase.

"(7) Reports as to Borrower's Condition. - The Financing Institution shall promptly notify the Reserve Bank of any default on the part of the Borrower, and of any unfavorable change in the financial condition or in the business of the Borrower or in the collateral securing the loan, of which the Financing Institution has knowledge and which in its opinion is material. Upon request of the Reserve Bank the Financing Institution shall furnish to the Reserve Bank any information that it has relating to the financial condition of the Borrower and the progress of the loan.

"(8) Expenses. - In the event of any purchase as provided in this agreement, all out-of-pocket expenses thereafter incurred by the War Department, Reserve Bank, or Financing Institution in the collection of the obligation or preservation of the collateral therefor which are not recovered from the Borrower, shall be shared ratably by the War Department and the Financing Institution in accordance with their respective interests in said loan.

"(9) Losses. - In the event of any purchase as provided in this agreement, all losses shall be shared ratably by the War Department and the Financing Institution in accordance with their respective interests in said loan.



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"(10) Fees by War Department. - The Financing Institution shall pay to the Reserve Bank an amount computed at the rate of \_\_\_\_\_ per centum per annum on the average daily amounts of unpaid principal of said loan which the War Department may be obligated to purchase under this agreement, provided such requirement shall terminate immediately upon the purchase by the War Department of its agreed portion of said loan.

"(11) General. - The provisions of paragraph (1) of this agreement relating to written demand by the Financing Institution and the percentage of loan specified in such paragraph shall not be applicable to purchases made under paragraphs (4), (5) or (6) hereof. In all other respects purchases made under any paragraph of this agreement shall be subject to all the terms and conditions of the agreement. Wherever the words 'Reserve Bank' are used in this agreement, they shall mean the Federal Reserve Bank of \_\_\_\_\_ acting on behalf of the War Department as fiscal agent of the United States in accordance with the provisions of Executive Order No. 9112 of March 26, 1942.

"(12) Special Conditions. - \_\_\_\_\_

"IN WITNESS WHEREOF, the parties have caused this agreement to be executed on their behalf by their duly authorized agents this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_.

THE WAR DEPARTMENT OF THE UNITED STATES

By Federal Reserve Bank of \_\_\_\_\_  
As Fiscal Agent of the United States

(SEAL)

By \_\_\_\_\_ (Title)

ATTEST:

\_\_\_\_\_  
(Financing Institution)

By \_\_\_\_\_ (Title)"

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In accordance with the above telegram, the following letter to the Presidents of all of the Federal Reserve Banks was approved unanimously, the letters to Minneapolis, Kansas City, Dallas, and San Francisco to be sent by air mail:

"Referring to the Board's telegram of this date with regard to operations under Executive Order No. 9112, we enclose herewith the following documents:

1. A photostat of a memorandum to the Board of Governors, dated April 10, 1942, from Mr. Albert J. Browning, Chief of Purchase Branch, Procurement and Distribution Division, Special Representative of the Under Secretary of War.
2. A photostat of a letter to all Federal Reserve Banks, dated April 10, 1942, also from Mr. Browning.
3. A copy of the form of Guarantee Agreement with an attached certificate stating that such Agreement is in the form as enclosed with the letter from Mr. Browning referred to above.
4. A photostat of a memorandum from the Under Secretary of War for Lieutenant General Somervell, dated April 8, 1942, delegating authority under Executive Order No. 9112.
5. A photostat of a memorandum from Brigadier General W. D. Styer for the Director, Budget and Financial Administration Division, dated April 6, 1942.
6. A photostat of a designation of certain financial contracting officers by Brigadier General Styer, dated April 6, 1942, and approved by the Under Secretary of War.
7. A photostat of a memorandum from the Under Secretary of War for Lieutenant General Somervell, dated April 8, 1942, with regard to a transfer of the Advance Payment Section of the War Department."

Telegram to Mr. Olson, Assistant Vice President of the Federal Reserve Bank of Chicago, reading as follows:

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"Re your April 10 wire regarding guarantee charges, referred to in Board's April 9 wire, such charges may be paid at such time or times as are justified by terms and conditions of loan agreement. Such charges should be on annual basis and any unearned fees should be rebated."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

Donald Ransom  
Vice Chairman.