

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, October 7, 1942, at 2:15 p.m.

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

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

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

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on October 6, 1942, were approved unanimously.

Memorandum dated October 7, 1942, from the War Loans Committee, recommending that Mr. Smead, Chief of the Division of Bank Operations, be designated to serve also as Acting Administrator for the War Loans Committee, effective October 10, 1942.

Approved unanimously.

Memorandum dated October 2, 1942, from Mr. Dreibelbis, General Attorney, recommending that the leave of absence without pay granted to Mrs. Clara A. Hutchinson, a stenographer in the Legal Division, because of confinement be extended from October 1, 1942, through February 28, 1943, and that during this period the Board continue its contributions to the retirement system on her behalf provided she continues her own contributions.

Approved unanimously.

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

"The Board approves designation of E. V. Geary as a special assistant examiner."

Approved unanimously.

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

"This refers to your letter of September 25, 1942, regarding the question whether a Federal Reserve Bank which discounts a note evidencing a loan guaranteed under Executive Order No. 9112 succeeds to the rights of the discounting financing institution under its guarantee agreement with the War Department, Navy Department, or the Maritime Commission, as the case may be.

"It is understood that your question is prompted by a memorandum recently received by you from the War Department in connection with a guaranteed loan made to Plastic Lights, Inc., Toledo, Ohio, stating that: 'The Federal Reserve Bank of Cleveland should be requested to inform the financing institution that the benefits of the guarantee agreement do not extend to the transferee of a note evidencing a guaranteed loan.' It has been noted from your letter of September 25, 1942, addressed to the Administrator of the War Loans Committee, that you are withholding the giving of this information to the financing institution pending a clarification of the rights of the Federal Reserve Bank under the guarantee agreement in the event of the discount of a note evidencing the guaranteed loan.

"As you know, section 2 of the standard form of guarantee agreement provides that prior to any purchase under such agreement 'the financing institution shall hold the obligation or obligations' evidencing the loan to be guaranteed. Literally, therefore, it would appear that the financing institution is prevented by its agreement from making any transfer of the obligation evidencing the guaranteed loan, except a transfer to the Guarantor in the event of a purchase in accordance with the terms of the agreement; and this would seem to preclude a transfer of a note even to a Federal Reserve Bank for discount. It is understood, however, that the War Department contemplates taking action for the purpose of making it clear that nothing in the guarantee agreement shall be deemed to prevent a financing institution from transferring the obligation evidencing the guaranteed loan

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"to a Federal Reserve Bank where such obligation is discounted with the Federal Reserve Bank or offered as collateral for an advance by the Federal Reserve Bank.

"Assuming that the right of the financing institution to transfer the note to the Federal Reserve Bank in the event of discount is thus clarified, it would seem to follow that such a transfer would not violate the provisions of the guarantee agreement and that the agreement would not be vitiated by the transfer but would remain in full force and effect. Accordingly, it is our view that a Federal Reserve Bank which discounts a note evidencing a guaranteed loan will be entitled, either directly or indirectly, to the benefits of the guarantee agreement. The note would not, of course, be eligible for such discount under the language of the Board's recent amendment to Regulation A unless the note evidences a loan subject to the guarantee.

"In any event, it seems clear that in the ordinary case the benefits of the guarantee agreement do not extend to the transferee of a note evidencing the guaranteed loan; and it is suggested that notice to this effect be given by your bank to the financing institution involved in the particular case mentioned in accordance with the instructions received from the War Department regarding this matter.

"We have informally discussed with the War Department the questions raised in your letter; and we understand that the ambiguities which now exist with respect to the discount of notes evidencing guaranteed loans will be clarified in the near future. We will, of course, advise you promptly of any action taken in this connection."

Approved unanimously, together with letters to the War and Navy Departments and the United States Maritime Commission transmitting copies of the incoming letter and the above reply.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. H. C. Fraser

Chairman.