

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 23, 1942, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Draper

Mr. Morrill, Secretary
Mr. Bethea, 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:

Letter to Honorable Paul V. McNutt, Chairman of the War Manpower Commission, reading as follows:

"Your letter of October 16, 1942 regarding the list of key positions submitted in accordance with War Manpower Commission Directive No. XI has been brought to the attention of the Board of Governors. In accordance with your suggestion that the Civil Service Commission be notified of the official in our agency who will be the point of contact on problems of occupational deferment, the Commission has been advised that Mr. R. F. Leonard, Director, Division of Personnel Administration, will act in that capacity for the Board of Governors of the Federal Reserve System.

"As suggested in your letter, we will communicate with Mr. Robert M. Barnett, Chairman, Committee on Occupational Deferment, of the Civil Service Commission, on questions pertaining to positions on the lists required under War Manpower Commission Directive No. XI."

Approved unanimously, together with a letter to the United States Civil Service Commission transmitting the information as stated in the above letter.

Letter to Mr. Trimble, Assistant General Counsel of the Federal Reserve Bank of New York, reading as follows:

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"This will acknowledge receipt of your letter of October 21, 1942, addressed to Mr. Vest, in which it is stated that the attorneys for General Motors Corporation and the attorneys for the banks wish to have a ruling from the Comptroller of the Currency as to the compliance of the guarantee agreement used in connection with the General Motors loan with paragraph (10) of section 5200, U.S.R.S. We are today addressing a letter to the Comptroller of the Currency presenting this matter to him.

"It is understood that the form of guarantee agreement in connection with the General Motors loan as agreed to by the War Department is Exhibit D of the pamphlet entitled 'Amended Application by Financing Institutions to Federal Reserve Bank of New York, Fiscal Agent of the United States, for guarantee of loan, pursuant to Executive Order No. 9112 dated March 26, 1942, relating to General Motors Corporation' and dated October 17, 1942, and we are so advising the Comptroller of the Currency."

Approved unanimously, together with
the following letter to Honorable Preston
Delano, Comptroller of the Currency:

"There is enclosed herewith a copy of a letter received from the Federal Reserve Bank of New York with reference to the question whether the agreement between the War Department and certain banks guaranteeing a loan made to General Motors Corporation pursuant to Executive Order 9112 complies with paragraph (10) of section 5200 U.S.R.S. The form of the guarantee agreement as agreed to by the War Department is Exhibit D of the enclosed pamphlet entitled 'Amended Application by Financing Institutions to Federal Reserve Bank of New York, Fiscal Agent of the United States, for guarantee of loan, pursuant to Executive Order No. 9112 dated March 26, 1942, relating to General Motors Corporation' and dated October 17, 1942.

"There is also enclosed a copy of a letter and of its enclosure addressed by the War Department to all Federal Reserve Banks under date of October 9, 1942, with reference to the inclusion of certain special conditions lettered (A) to (O), inclusive, in guarantee agreements under the Executive Order. A similar letter has been sent by the Navy Department to all Federal Reserve Banks.

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"In order that we may advise the Federal Reserve Bank in this matter, it will be appreciated if you will advise whether in your opinion the guarantee agreement relating to the loan to General Motors Corporation complies with paragraph (10) of section 5200, U.S.R.S., and if you will give similar advice regarding guarantee agreements in which there have been incorporated special conditions (A) to (O), inclusive, in the form enclosed with the War Department's letter of October 9, 1942, but which are otherwise in the standard form of May 14, 1942, referred to in your letter of June 18, 1942."

Letter to Mr. Chalfont, Managing Director of the Detroit Branch of the Federal Reserve Bank of Chicago, reading as follows:

"This refers further to your letter of September 18, 1942, and our reply thereto dated October 1, 1942, regarding the meaning of the words 'original maturity' as used in the next to the last sentence of section 1 of the standard form of guarantee agreement.

"The questions presented in your letter have since been considered by the War Department, and there is enclosed for your information a copy of a letter which the Board is today addressing to all Federal Reserve Banks setting forth the War Department's views with respect to these questions.

"Your attention is called to the fact that the War Department has taken the position that, in the case of a revolving credit, the words 'original maturity' refer to the date of final maturity of the credit agreement rather than to the maturity of a note representing a particular advance under the revolving credit. We regret that the views expressed in our letter of October 1, with respect to this question, which were based upon an informal discussion of this matter with one of the attorneys in the War Department, are in conflict with the views which have now been formally expressed by the War Department."

Approved unanimously, together with
the following letter to the Presidents of
all the Federal Reserve Banks:

"In connection with the execution of guarantee agreements pursuant to Executive Order No. 9112, certain questions have recently arisen as to the interpretation of the words 'original maturity' appearing in section 1 of the standard form of guarantee agreement. The Board has now

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"received from the War Department a memorandum dated October 5, 1942, setting forth the War Department's views with respect to these questions.

"With respect to whether the words 'original maturity', as here used, refer to an accelerated maturity, the War Department in this memorandum takes the view that these words 'were intended to refer to the expressed maturity of a loan and were not intended to refer to accelerated maturity whether automatic or optional.'

"With respect to whether, in the case of a revolving credit, the words 'original maturity' refer to the maturity of a note representing a particular advance under the revolving credit or to the date of final maturity of the credit agreement, the War Department's memorandum contains the following statement:

'The guarantee agreement was originally drafted with a term loan in mind rather than a revolving credit. Consequently, there is some ambiguity in the case of revolving credit as to whether the 60-day period starts running from the date of maturity of the note representing a particular advance rather than from the date of final maturity of the revolving credit as expressed in the loan agreement.* * *

'Consequently, the War Department has always held the view, in which it is believed the Navy Department concurs, that the words "original maturity" in section 1 of the guarantee agreement as applied to a revolving credit means the date expressed in the loan agreement for the termination of the credit rather than the date of any particular note issued in accordance with that credit. It is believed that this is the only interpretation consistent with the last sentence of section 1 of the guarantee agreement which reads as follows:

"Where the loan is payable in two or more amounts or instalments maturing at different times, the maturity of the loan shall be the maturity of the amount or instalment which is last due."

"In this connection, the War Department points out that to interpret the words 'original maturity' as referring to the date of maturity of a note representing a particular advance would mean that a financing institution in case of a revolving credit would have to 'put' within 60 days after the expiration of the date at which a particular note became due even though the financing institution is obligated to extend additional credit; and that this would increase the likelihood of 'puts' and would seem undesirable to the War Department.

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"The War Department has given consideration to the inclusion in guarantee agreements of a special condition clarifying this question, but has concluded that such action is unnecessary in view of the interpretation above expressed. In this connection, the War Department's memorandum states:

'It was also felt that such an interpretative provision might throw some doubt on existing guarantees of revolving credits and that it would be better simply to notify all Federal Reserve Banks of this interpretation with authority to give any financing institution having doubt as to the interpretation a letter expressing the views of the guarantor.'

Letter to Mr. Frederick X. Wilson, Assistant Treasurer of the Prince Georges Bank & Trust Company, Hyattsville, Maryland, reading as follows:

"This is with reference to your letter of October 16, 1942 asking about the effect of Regulation W on certain modernization loans.

"According to our understanding, the exemption for 'defense housing' credits, as designated by the Administrator of the National Housing Administration under Order No. 8, is not available where the occupants of the properties would not be required to move if the repairs contemplated were not made, even though such repairs are considered to be necessary to preserve the property or conserve fuel.

"Amendment No. 6 which has to do with fuel conservation, a copy of which is enclosed, provides an exception to Regulation W which is entirely separate from the 'defense housing' provision. Exterior asbestos siding does not qualify under this amendment inasmuch as it is not applied within existing structures.

"The administration of Regulation W has been decentralized and we should appreciate it if you would address any written inquiries you might have in the future to the Baltimore Branch of the Federal Reserve Bank of Richmond which has responsibility for the district in which Hyattsville is located."

Approved unanimously.

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Memorandum dated October 8, 1942, from Mr. Smead, Chief of the Division of Bank Operations, recommending (1) that the Board give its tentative approval to a revised report form, a copy of which was attached to the memorandum, of earnings, expenses, and dividends of State member banks, and (2) that he be authorized to send the following letter to the Presidents of all the Federal Reserve Banks and to discuss the subject informally with representative bankers and representatives of bankers' associations. The memorandum also stated that a copy of the tentative form would be sent to the Deputy Comptroller of the Currency for his information.

"There are enclosed three copies of a proposed revised form of earnings and dividends report of State member banks (form F.R. 107). While the Board has not approved the proposed changes in the form it has authorized us to furnish copies of the form to the Federal Reserve Banks and to discuss it with representative bankers.

"The Comptroller's office has advised us informally that it does not contemplate making any change at this time in the form of earnings and dividends report of national banks. It will be observed, however, that the itemization of earnings, expenses, profits, and recoveries on the face of the proposed form is such that we will be able to combine earnings and expense statistics of State member banks with corresponding statistics as now reported by national banks in order to obtain comparable totals for all member banks. The principal differences between the proposed form and the present national and State member bank forms are in sections 2 and 3 on the reverse side of the forms, which pertain to inter-capital account transactions and to the distribution of total profits since organization. It is understood that the Federal Deposit Insurance Corporation expects to revise its earnings and dividends form, and it is hoped that its revised form and the Board's revised form will be substantially identical.

"It will be appreciated if you will have the proposed revised form reviewed and let us have as soon as practicable such comments and suggestions as your Bank may wish to make.

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"Instructions governing the preparation of the proposed revised form of report are now being drafted and copies of the draft will be sent to you as early as practicable.

"The question whether semi-annual reports should be required covering the first half of each year will be considered at a later date."

The above letter was approved unanimously.

Memorandum dated October 19, 1942, from Mr. Nelson, Assistant Secretary, submitting for the consideration of the Board the renewal of the fire and supplemental contract insurance on the Board's building and its contents and the purchase of insurance from the War Damage Corporation as a protection against loss from enemy attack, and recommending (1) that the fire and supplemental contract insurance of \$1,000,000 on the Board's building, and \$100,000 on its contents, be renewed with the Stock Company Association for a period of five years from November 24, 1942, on the same basis as the insurance now in force, and (2) that no war damage insurance be purchased at this time.

Approved unanimously.

Memorandum dated October 22, 1942, from Mr. Bethea, submitting the travel expense voucher of Governor Szymczak covering the period October 16-20, 1942, and recommending that, because no other accommodations were procurable at the time between Washington and Chicago, the payment of an additional expenditure of \$13.25 by Mr. Szymczak covering the difference in the price of a compartment and a drawing room be approved.

Approved unanimously.

Thereupon the meeting adjourned.

Robester Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.