

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, August 31, 1943, at 10:30 a.m.

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

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

Before this meeting the attention of the members of the Board had been called to a letter dated August 16, 1943, from Mr. Lichtenstein, Secretary of the Federal Advisory Council, requesting that the Board send to him a list of the subjects which it wished the Federal Advisory Council to discuss at its next meeting to be held in Washington on September 19-21, 1943. The letter was presented at this time for a determination by the Board of the reply to be made.

Mr. Morrill was requested to advise Mr. Lichtenstein that the Board had no topics to suggest at this time.

Reference was made to a letter dated August 28, 1943, from Mr. Brainard, chairman of the executive committee of the Conference of Chairmen

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of the Federal Reserve Banks, suggesting that consideration be given to a two-day meeting of all Federal Reserve Bank and Branch directors sometime during the winter at a convenient central point, and stating that some of the Chairmen had requested that a meeting of the Chairmen's Conference be held and that he would like to know what date would be convenient to the Board.

On the first question presented by Mr. Brainard's letter, relating to a possible conference of directors of Federal Reserve Banks and their Branches, Chairman Eccles expressed the opinion that at this time and under the existing conditions it would be impracticable and undesirable to arrange such a meeting. He pointed out that the Office of Defense Transportation had requested all Governmental agencies to refrain as far as practicable from burdening the transportation facilities of the country unnecessarily and that such a meeting would involve transportation and hotel facilities for possibly 200 men. He also thought that, in view of the fact that such a comprehensive conference had never been held by the System, the mere calling of such a conference would arouse questions on the part of the public and the press as to the purpose of the conference and whether matters of major importance were being decided, which would involve questions of relations with the public and the press, including the necessity for statements which might have to be cleared through other Governmental channels. He felt that the problem of agenda and purposes to be accomplished would be extremely difficult to determine. In the circumstances, he suggested that if such a conference were ever thought desirable it would be better to postpone it until after the war. With respect to

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the second question, relating to a meeting of the Chairmen's Conference, Chairman Eccles said that in addition to Mr. Brainard it was understood that Messrs. McCabe and Ruml likewise thought such a conference would be desirable, but that it seemed undesirable to arrange it during the period of the war loan drive in September, and that it was understood that Mr. Brainard had some commitments for October. However, if the Chairmen decided to arrange a meeting for some time during the month of November there would seem to be no reason why the Board should not agree. The other members of the Board concurred with the Chairman in the views which he had expressed.

It was understood that Mr. Morrill would advise Mr. Brainard by telephone of the conclusions of the Board with respect to the two matters referred to in his letter.

In accordance with the action taken by the Board yesterday, there was submitted a draft of telegram to the Presidents of all the Federal Reserve Banks quoting the following text of a press statement which was to be released this afternoon by the Office of War Information for publication in the morning papers of Wednesday, September 1, 1943:

"Government guaranteed V loans will be made available to war contractors and subcontractors on a much broader basis than heretofore, effective immediately, under a plan jointly announced today by the War and Navy Departments, the U. S. Maritime Commission and the Federal Reserve Board.

"The plan is designed to assure contractors that their working capital invested in war production will not be frozen in the event of contract terminations. Interest on loans guaranteed under the new program will be assumed by the Government upon termination of contracts as under present Regulation V guarantees.

"This decision to broaden industrial credit facilities was reached with a view to preventing any lag in war production,

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"which might be caused by fear on the part of contractors that their capital would be tied up as contracts are cancelled in response to swiftly changing war requirements. This broadened V loan will go far toward allaying such fears.

"In the past, advances under V loans have been restricted, in general, to working capital needs for war production. The broadening of the plan will enable contractors to obtain the use of most of their own working capital immediately upon termination of their contracts. Banks will be enabled to make such advances at once, and with a minimum of complications. The establishment of such credit arrangements will greatly minimize the problem of termination of war contracts.

"The services stress the fact that cancellation of contracts must not be construed as marking the beginning of a general curtailment of war production. On the contrary, with the war rapidly becoming one of movement, with great Allied offensives in progress and in prospect, materiel requirements are subject to sudden and unavoidable changes, and it is essential to remove all possible causes of delays in war production.

"Details of the procedure for obtaining the liberalized V loans have gone forward to all Federal Reserve Banks from Washington.

* * * * *

"FURTHER INFORMATION REGARDING THE BROADENED V LOAN PROGRAM

"The contractor or subcontractor will obtain a V loan exactly as at present except that, if the loan is intended to free his own working capital upon termination of contracts as well as to provide him with working capital needed to finance them, then there are to be two changes in the present guarantee agreement, viz:

(1) The bank will be required at all times to have a participation in the loan and, accordingly, the original percentage of guarantee specified in the guarantee agreement will not be increased by reason of contract cancellations, and

(2) The bank must share with the Government any commitment fee, which may not exceed 1/2 of 1 per cent per annum on the undischursed portion of the credit, in the same proportion that the guarantee fee now bears to the interest payable on V loans, viz; if the percentage of guarantee is 60 per cent, the Government's share is 10 per cent of the commitment fee.

65%

70%

75%

80%

85%

90%

12-1/2%

15%

17-1/2%

20%

22-1/2%

25%

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"The amount of loans which a contractor will be entitled to obtain in the event of cancellations of his contracts will be stated in the loan agreement as a percentage of inventories, work in process, accounts receivable, and (without duplication) amounts paid or concurrently to be paid by him to subcontractors or suppliers by reason of contract cancellations. Subcontractors and suppliers will receive protection under this program, because a borrower will be required to pay them whatever he owes them in connection with the items used as a basis for the borrowing.

"Loan agreements under the new program will include provision for such amounts of working capital to carry out war production contracts, as may be needed by the contractor in the particular case. In general, where the amount of credit needed to carry out the war production contracts is small in proportion to the amounts needed to free his own working capital upon contract terminations, the maturity of the credits under the new program may be longer and a minimum of restrictions will be placed upon the borrower by the guaranteeing agencies.

"When cancellations of the borrower's contracts occur, the maturity of that part of the loan proportionate to the amount of the contracts cancelled will be suspended and interest waived thereon, as is now provided under V guarantees. This suspension of maturity and waiver of interest will apply whether the funds have been advanced to the borrower before or after the cancellations have occurred.

After some discussion of the commitment fee, referred to in paragraph 2 of the press statement, unanimous approval was given to the press statement with the understanding that it would be sent to all the Federal Reserve Banks by wire today.

Chairman Eccles read a clipping from the press with respect to the seven-point program just announced by the Life Insurance Companies of America for combatting inflation, and suggested that the attention of the Federal Reserve Banks be called to the program with the thought that they might do something along the same lines in their respective districts.

Chairman Eccles' suggestion was referred to Mr. Evans for consideration.

At this point Messrs. Thurston, Smead, Paulger, Dreibelbis, Vest, and Wyatt withdrew from the meeting, and the action stated with respect to

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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 August 30, 1943, were approved unanimously.

Memoranda dated August 25 and 28, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the following increases in basic annual salaries of employees in that Division be approved, effective September 1, 1943:

| <u>Name</u> | <u>Designation</u> | <u>Salary Increase</u> | |
|------------------------|--------------------|------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| Mrs. Ruby S. Dove | Clerk-stenographer | \$1,800 | \$1,920 |
| Mrs. Alice L. Davis | Clerk-stenographer | 1,800 | 1,920 |
| Mrs. Florence R. Cox | Clerk-typist | 1,440 | 1,560 |
| Miss Margaret F. Mills | Clerk-stenographer | 1,440 | 1,560 |

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. Coates
Chairman.