

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, September 11, 1943, at 11:00 a.m.

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

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 September 10, 1943, were approved unanimously.

Memorandum dated September 9, 1943, from Mr. Nelson, Assistant Secretary, recommending that Orlander L. Ross, Jr., be appointed as a laborer in the Secretary's Office on a temporary basis for an indefinite period, with basic salary at the rate of \$1,200 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination, with the understanding that if anything derogatory should develop in the investigation of his references his services may be terminated immediately.

Approved unanimously.

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

"Following the designation by the War Manpower Commission of the Federal Reserve Banks and Branches as an essential activity, National Headquarters, Selective Service System issued a supplement dated July 24, 1943 to Activity and Occupation Bulletin No. 34-1 which has been interpreted by some as making Federal Reserve Banks and Branches subject to the procedure established by Executive Order 9309 and Public Law 23 with regard to occupational deferment of Federal employees under the Selective Service Act.

"At the time the Federal Reserve Banks and Branches were classified as an essential activity, it was distinctly understood by the Review Committee established by Executive Order 9309 and by other representatives of the War Manpower Commission that such designation would not bring the Federal Reserve Banks and Branches within the purview of that Order, although it was recognized that Executive Order 9309 is applicable to the Board of Governors and its employees.

"The effect of the misunderstandings arising from the amendment of July 24 referred to above, was brought to the attention of Mr. Barnett, Chairman of the Review Committee on Deferment of Government Employees appointed by the Chairman of the War Manpower Commission, pursuant to Executive Order 9309. Mr. Barnett advises us that after discussing the matter with National Headquarters, Selective Service System, it was the consensus that the best way to handle the matter was for Mr. Barnett, as Chairman of the Review Committee, to write a letter to the Board advising the Board that the provisions of Executive Order 9309 and Public Law 23 are not applicable to the Federal Reserve Banks and Branches and that the Board could then furnish copies of the letter to the various Federal Reserve Banks for their information and use. Accordingly, enclosed are 10 facsimile copies of Mr. Barnett's letter of September 7, 1943. We shall be glad to send additional copies if desired."

Approved unanimously.

Letter to the board of directors of the "Farmers and Merchants Bank", Greenwood, Wisconsin, stating that, subject to conditions of

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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 Chicago.

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

Letter to the board of directors of the "Portland Trust and Savings Bank", Portland, Oregon, stating that, subject to conditions of membership numbered 1 to 6 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 San Francisco.

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the power to act as surety. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously, together with a letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

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"approves the application of the 'Portland Trust and Savings Bank', Portland, Oregon, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of Oregon for his information.

"You will note that the Board has not prescribed a special condition of membership regarding the exercise of the power possessed by the bank to act as surety, but has taken care of the matter in the letter to the applicant bank.

"It is assumed, of course, that you will follow the matter of the bank's reporting as a subordinated obligation in its reports of condition the full amount, including any accrued and unpaid interest as well as the principal, due to the heirs of the Pittock Estate on the contribution made to the bank in 1933, reference to which matter is made on page 16 of the report of examination for membership."

Letter to the "First National Bank of Coshocton", Coshocton, Ohio, reading as follows:

"This refers to the resolution adopted on August 12, 1941, by the board of directors of your bank, formerly The Commercial National Bank of Coshocton, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the

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"Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

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

"For your information there are given below answers of the War Department, Navy Department, and Maritime Commission, to questions asked by two Federal Reserve Banks with regard to Regulation V termination 'VT' loans:

1. Q. Is a guarantee agreement in order where war production contractor has ample working capital and only desires commitment because of doubts as to his future cash position in the event of the cancellation of his war production contracts?
 - A. Yes; but at least a portion of the funds to be provided under a 'VT' loan agreement should be available to the contractor for financing war production as well as for financing termination settlements. This avoids any question as to the power to guarantee a loan to be made available solely after termination.
2. Q. What is maximum maturity of commitments which would be approved by the Services?
 - A. Three to three and one-half years or term of settlement provided in guarantee agreement whichever is shorter.
3. Q. Is it intended there should be a breakdown between amount committed for 'borrowed working capital' and amount committed for freeing borrower's 'own working capital upon cancellations of

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"his war production contracts' or is it intended there should be over-all credit and that the maximum amounts which may be borrowed for the two purposes should be limited by a loan formula?

- A. It is intended that there should be an over-all credit, and the maximum amounts which may be borrowed may be borrowed for both purposes or divided between the two purposes, depending on agreement between the borrower and the bank as to the loan formula. The War Department will in general permit the full credit to be used for war production as well as on termination, but the Navy and Maritime Commission may in approving the terms of the loan require a limitation on the amounts to be drawn down before cancellation to amounts needed for financing war production. As indicated in question (1) a portion of the credit must be so made available at the borrower's election even though he may not choose to avail himself of the right to borrow until after termination.
4. Q. Is credit available upon cancellations of war production contracts to be limited by amount of inventories, work in process, and accounts receivable, etc., which are allocable to cancelled contracts?
- A. No. The credit may be predicated on total war production inventories and work-in-process, and accounts receivable attributable to both cancelled and uncanceled contracts. In addition the credit may be predicated upon moneys which have been used or are to be used concurrently to pay sub-contractors' claims on cancelled contracts without overlap, of course, with inventory or receivables.
5. Q. In determining borrower's 'own working capital' are bank loans, accounts payable, and other current liabilities to be deducted from current assets?
- A. Yes.

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- "6. Q. Is amount of credit to be available upon cancellation of war production contracts to be limited by amount of borrower's 'own working capital'?
- A. No, since the formula might include payments to subcontractors in excess of then working capital or receivables representing a claim for facilities or expenditures expressly made reimbursable by the Procurement Agency or the borrower may have a net minus working capital or just a heavily extended position.
7. Q. Is amount of credit to be available upon cancellation of war production contracts to be limited by the proportion of borrower's 'own working capital' which the borrower's investment in inventories, work in process, and accounts receivable which are allocable to cancelled contracts bears to his aggregate investment in inventories, work in process, and accounts receivable?
- A. No, the credit to be available is to be a percentage of the investment in war production inventories and work in process and war production receivables and payments made or concurrently to be made to subcontractors.
8. Q. Is credit available on cancellation of war production contracts to be made available to subcontractors as well as prime contractors?
- A. Yes.
9. Q. If borrower is prime contractor, may cancellation of war production contract upon which he is subcontractor be made a basis for credit?
- A. Yes.
10. Q. Is it desired that guarantee agreements should be so drawn that financing institutions must assume burden of verifying inventories, goods in process and accounts receivable where loans are made based on cancellation of war production contracts or is it sufficient if loan agreement

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"provides for certificates of borrower and provides that financing institution acting in good faith may rely thereon?"

- A. There is no change in policy in this respect from ordinary Regulation V loans. The Financing Institution may provide in the loan agreement for certification by borrower. Inasmuch as the Financing Institution in this type of loan will always have at least a 10% interest, it is believed that it will have sufficient incentive to exercise reasonable care to obtain additional verification in those cases where that appears to be necessary.
11. Q. Where borrower is presently being financed by Regulation V loan, can financing institution make commitment separate and apart from outstanding loan and guarantee and receive an independent guarantee therefor which does not require the financing institution to waive any protection afforded by Section 5 of outstanding guarantee agreement?
- A. In general it is believed that the existing V loan should be converted into a larger VT loan where the latter type of loan appears desirable. This will avoid serious problems of loans competing for collateral.
12. Q. Is the policy of the War Department changed with respect to making regular Regulation V loans to borrowers who can readily obtain needed credit accommodation without a guarantee?
- A. No. It is the view of the War Department that any contractor engaged in war production who needs money for that production, including sufficient to cover his tax liabilities with tax notes, can have a Regulation V loan. If the amount of borrowing sought is however, obviously primarily for post-war protection, he will have to take a new type V loan or a 'VT' loan. For instance, if a borrower needs \$7,000,000 for present war production and \$20,000,000 to

"cover his war production receivables and inventories on termination, to permit him to use his own working capital for re-conversion, if the loan comes in at \$20,000,000 it will be classified as a VT loan. If it comes in at \$7,000,000 it will be classified as an old form guaranteed loan. Moreover, in the case of a weak contractor, the tendency of the War Department as heretofore will be to approve as a Regulation V loan, a somewhat inflated credit on the theory that the Financing Institution needs additional protection in that type of case.

13. Q. Where a bank makes a loan, after cancellation, under a commitment theretofore given, does borrower pay interest on the loan, or does Service involved pay interest? If a correct interpretation of Section 6, in such a case, is that the guarantor, rather than the borrower, pays interest, does not this Section need revision? This point is raised in view of fact that first part of Section 6 refers to adjustment of interest, which implies that borrower has previously paid it.
- A. Where a bank makes a loan after cancellation under a commitment theretofore given, interest is waived and guarantor pays interest on a portion of loan proportionate to amount of cancellations, all as provided in Section 6 of guarantee agreement. Borrower must make request for adjustment, and waiver of interest is effective from adjustment notice date, as provided by Section 6. Not considered necessary to revise Section 6, inasmuch as its provisions are applicable in the same way under the broadened program as under the ordinary type of V loan. 'Adjustment' referred to in Section 6 is the waiver of interest and suspension of maturity on the portion of the loan affected."

Approved unanimously, together with the following additional telegram to Mr.

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Peyton, President of the Federal Reserve
Bank of Minneapolis:

"Referring your wire of September 3 raising certain questions regarding the expanded Regulation V program, answers to all questions except 10 and 11 are being incorporated in a wire going to all Federal Reserve Banks. Answers of guaranteeing agencies to questions 10 and 11 are as follows:

10. Q. Where credit upon cancellation of war production contracts is provided for, must there be a firm commitment by financing institution or may credit be left optional with it?
- A. There should be a firm commitment if a commitment fee is charged. If no fee is charged the commitment need not be firm but it is not anticipated that the borrower will normally accept such an agreement.
11. Q. If credit is optional with financing institution should guarantor reserve right to terminate guarantee agreement at any time before credit is actually extended?
- A. Yes."

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

"There is enclosed for your information a copy of a memorandum from the Navy Department, dated September 3, 1943, signed by Lieutenant Edward B. Smith, Assistant Chief of Finance Section, regarding loans guaranteed by the Navy Department pursuant to its instructions of August 30, 1943, a copy of which was forwarded to you with the Board's letter S-680 of August 30, 1943."

Approved unanimously.

Letter to Mr. Allen, Manager of the Credit Department, Federal Reserve Bank of New York, reading as follows:

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"This refers to your letter of August 24, 1943, enclosing copies of a draft of loan agreement for 'straight' loans, with a request that the form be reviewed by the War and Navy Departments, the Maritime Commission and Board of Governors.

"In this connection there is enclosed a copy of a memorandum from the War Department, dated September 10, 1943, signed by Mr. Charles H. Willard, Loan Officer, indicating that the War Department has not yet studied the form of loan agreement enclosed with your letter, but expressing the view that it would be an unnecessary duplication for the Federal Reserve Bank of New York to prepare a form of loan agreement for use in connection with revolving credits, in view of the fact that the form published in the pamphlet of the American Bankers Association entitled 'War Loans' has been reviewed and approved by the Services. The Navy Department has informally advised us that it concurs in this view.

"We will advise you further upon receipt of the comments of the Services regarding the form of loan agreement enclosed with your letter."

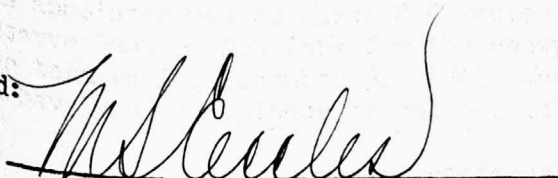
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.