

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, April 7, 1944, at 11:30 a.m.

PRESENT: Mr. Szymczak  
Mr. McKee  
Mr. Draper  
Mr. Evans

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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on April 5, 1944, were approved unanimously.

The minutes of the meeting of the Board of Governors with members of the executive committee of the Federal Advisory Council held on April 5, 1944, were approved unanimously.

Telegrams to Mr. Brome, Assistant Secretary of the Federal Reserve Bank of New York, Messrs. McCreedy and Clouse, Secretaries of the Federal Reserve Banks of Philadelphia and Cleveland, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, Mr. Ziemer, Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without

4/7/44

-2-

change by the Federal Reserve Banks of St. Louis and San Francisco on April 4 and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, Minneapolis, Kansas City, and Dallas on April 6, 1944, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Statement for the press dated April 6, 1944, for release in the morning newspapers of Friday, April 7, 1944, reading as follows:

"In the two years since the Board of Governors of the Federal Reserve System adopted Regulation V, the Federal Reserve Banks, acting as fiscal agents for the War and Navy Departments and the Maritime Commission, have been authorized to execute guarantees of loans for war production purposes amounting to \$7,484,000,000. Of this total, \$2,001,000,000 is represented by so-called VT loans, which are loans made principally to release working capital tied up in cancelled contracts.

"Of the 5,931 loans authorized, 18 per cent have been for \$25,000 or less, 46 per cent for \$100,000 or less, and 87 per cent for loans of \$1,000,000 or less. On February 29, the latest date for which figures are available, war production contractors had available about \$5,500,000,000 of credit under outstanding guarantees. On that date they were actually borrowing \$2,000,000,000. In addition, banking institutions have made approximately an equal amount of credit available for war production purposes without Government guarantees. The foregoing totals were compiled today by the Board of Governors, in reviewing operations under Regulation V as of April 6, 1944, the second anniversary of the Regulation.

"The first step taken in the program for financing war production was the enactment of the Assignment of Claims Act in 1940 authorizing manufacturers to assign claims under Government contracts for borrowers. However, after the entry of the United States into the war, it soon became apparent that the task of producing the huge quantities of war equipment and materials could not be adequately

4/7/44

-3-

"and expeditiously financed through existing facilities for capital and credit without Government assistance.

"The need for plant expansion was met largely through the use of public funds by the Defense Plant Corporation, the War Department, Navy Department, and the Maritime Commission. In order to obtain the all-out production needed for the prosecution of the war, it was necessary to spread war production throughout all sizes of business enterprises. In financing these enterprises, peacetime credit rules and loan limitations were found to be too restrictive. This was particularly true with respect to the credit needs of subcontractors and sub-subcontractors who could not be financed through the means of advance payments by Government procurement agencies. To meet this problem, the President issued Executive Order No. 9112 on March 26, 1942. The order authorized the War Department, Navy Department and Maritime Commission to guarantee loans for war production purposes and to utilize the services of the Federal Reserve Banks as fiscal agents in arranging guarantees of loans which, the President stated, were to be made on a production basis rather than under peacetime credit rules. Under this program essential war production was not held up because of a lack of financing.

"In the summer of 1943, it became evident that some businesses were reluctant to assume additional war contracts because of the fear that their working capital might be tied up after termination of the war. They felt that this might delay their return to peacetime operations and thus put them in an unfavorable competitive position. This situation was met by broadening the program for guaranteeing loans so that by making advance arrangements contractors were enabled to obtain guaranteed loans under which funds could be advanced to free working capital tied up in war production after their contracts were terminated. Guaranteed loans obtained on this broadened basis are known as VT loans to distinguish them from loans made for production purposes only.

"In anticipation of the large number of terminated contracts which may be expected as the war nears its close, legislation has been introduced in Congress to authorize the procurement agencies to guarantee loans after contracts are cancelled for the sole purpose of freeing working capital pending final settlement of cancelled contracts."

Approved unanimously.

4/7/44

-4-

Thereupon the meeting adjourned.

Chester Morie  
Secretary

Approved:

W.S. Appender  
Member.