

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, May 10, 1944, at 1:30

p.m.

PRESENT: Mr. Eccles, 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

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 May 9, 1944, were approved unanimously.

Letter to Mr. Stewart, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of St. Louis, involving increases in maximum annual salaries for two positions, as submitted with your letter of May 5, 1944."

Approved unanimously, together with a letter to the Joint Committee on Salaries and Wages transmitting the original and four copies of two certificates of the Federal Reserve Bank of St. Louis with respect to increases in the maximum annual salaries for the two positions as approved by the Board in the above letter.

Letter to the Federal Deposit Insurance Corporation, reading as follows:

5/10/44

-2-

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the Pan American State Bank, Brownsville, Texas, became a member of the Federal Reserve System on May 10, 1944, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

Letters to the "Bank of Manlius", Manlius, New York, "The Oakwood Deposit Bank Company", Oakwood, Ohio, "The Peoples Bank of Mullens", Mullens, West Virginia, the "Hanna State & Savings Bank", Hanna, Wyoming, and the "Pan American State Bank", Brownsville, Texas, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

5/10/44

-3-

Letters to Honorable Preston Delano, Comptroller of the Currency, and to the Federal Deposit Insurance Corporation, reading as follows:

"We enclose for your confidential information copies of letters (with respect to the denial by the Pacific Coast Mortgage Company of the request of examiners for the Federal Reserve Bank of San Francisco and the Board of Governors that the books and records of the mortgage company be made available for examination) of April 19, 1944, addressed by the Board to Pacific Coast Mortgage Company and Transamerica Corporation, respectively, both at San Francisco, California, together with a copy of the reply received from Pacific Coast Mortgage Company. To date no reply has been received from Transamerica Corporation."

Approved unanimously.

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

"In anticipation of the possible early enactment of legislation providing for guarantees of termination loans, such as the pending George-Murray Bill, representatives of the War and Navy Departments, the Maritime Commission, and the Board of Governors have been giving informal consideration to a standard form of guarantee agreement which should be used and a form of loan agreement which might be suitable in connection with such guarantees. Tentative drafts of such forms of agreements are enclosed.

"In drafting these forms, the Services have had in mind the recommendation of the Baruch-Hancock Report that war contractors be protected against delays in validating their claims by means of a 'new, simplified system of T (Termination) loans by local banks', and also the stated objective of the George-Murray Bill of providing war contractors with adequate interim financing within 30 days after proper application therefor, 'including the use of standard forms for agreements with respect to such interim

5/10/44

-4-

"financing to the extent practicable.' Moreover, as you know, the Services have stated that any forms of this kind should be made as short and as free from complications as possible in order that they may be readily understood and permit the prompt consummation of guaranteed loans.

"The suggested form of loan agreement enclosed herewith is designed to represent the requirements which will be made by the Guarantor in all cases and the only requirements which will be made by it, except that the Guarantor may require additional provisions in cases in which the quality of the credit may call for a guarantee of more than a certain percentage, possibly 90 per cent. While it is hoped that such a standard form of loan agreement may be sufficient in most instances, it is contemplated that Financing Institutions and Borrowers may add any other provisions which they deem necessary in particular cases, if not inconsistent with the standard form.

"Certain provisions of the proposed form of loan agreement appear to require some explanation. It is contemplated that the date of the maturity of the loan to be inserted in the blank space in paragraph 2 may not be later than 36 nor earlier than 18 months after the date of the agreement. In paragraph 5, relating to collateral, the dollar figure to be inserted in the blank space will depend upon the number of small contracts held by the Borrower and upon the quality of the Borrower's credit.

"The proviso at the end of the first sentence of paragraph 2 of the proposed loan agreement, permitting the renewal of notes having a maturity earlier than the maturity of the loan, has been tentatively inserted in order to make it clear that, in the case of a non-firm commitment, if the Financing Institution makes an advance in a certain amount on short term notes it becomes committed to renew such notes, upon request of the Borrower, until the maturity of the loan. Of course, if the amount of the notes is reduced by payments, the Financing Institution's obligation to renew applies only to the unpaid portion thereof.

"The question has been raised as to whether the proposed standard form of loan agreement should also include certain additional protective covenants. On the one hand, it has been suggested that such covenants are desirable for the protection of the Financing Institution and the Guarantor, and that, for the sake of speed

5/10/44

-5-

"and uniformity, covenants which the Financing Institutions would use in the great majority of cases should be added to the form. On the other hand, the feeling is expressed that any covenants of this kind imply financing on a credit basis rather than on the basis of claims resulting from the termination of contracts by the Government; that such covenants would be desirable only in special cases; that in such cases they may have to be varied by the Financing Institution and the Borrower to fit the facts of a particular case; and that their inclusion in the standard form would make it more lengthy and involved than necessary.

"The particular covenants which have been mentioned as possibilities in this connection are those relating to the following matters: (1) The acquisition, or retirement of the Borrower's capital stock; (2) the payment of cash dividends in excess of the amount paid during the preceding fiscal year; (3) loans to stockholders and officers of the Borrower; (4) restrictions against other borrowings; (5) a negative pledge clause applicable to all assets of the Borrower; (6) mergers and consolidations; (7) a minimum net working capital provision as a substitute for some or all of the foregoing covenants; and (8) pledge of termination inventory when requested.

"We will appreciate your comments as to the enclosed forms of guarantee agreement and loan agreement, including any suggestions which you may have for their further simplification or for the elimination of any provisions which may seem unnecessary. With particular reference to the loan agreement, we would appreciate your comments as to the necessity for including the proviso in paragraph 2, regarding the renewal of notes, and also as to whether any one or more of the additional protective covenants enumerated in the preceding paragraph need be included. Finally, we would appreciate your views as to whether:

(1) The enclosed form of loan agreement, with such changes as may be adopted, would be used in most cases without the requirement of additional provisions by the Financing Institution and the Borrower; (2) if not, whether any other form might be more generally acceptable; (3) whether there should be a separate simpler form for straight loans based only on contracts already cancelled, in which case the Financing Institution and the Guarantor could review

5/10/44

-6-

"the claims before the loan is made; or (4) whether any standard form of loan agreement at all would be practicable.

"We would also like to have any comments you may care to make on the question whether the terms of the loan agreement should be such that the Financing Institution must accept the loan formula certificate of the Borrower, even though in the opinion of the Financing Institution or the Guarantor the amount which will eventually be payable to the Borrower with respect to any particular item may be considerably less than the amount claimed by the Borrower; or whether the Financing Institution should have the right to decline to make advances in the full amount called for by the certificate in any case in which it or the Guarantor is satisfied that one or more of the amounts in the certificate is greater than it should be.

"It is suggested that you submit copies of this letter with the proposed forms to bankers or prospective borrowers in your District who, in your opinion, might be expected to offer helpful suggestions.

"In order that any comments and suggestions may be considered, they should reach the Board not later than May 25, 1944. It is requested that all suggestions be made as specific as possible."

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

"There has been transmitted to you today a letter enclosing copies of a proposed standard form of guarantee agreement, together with a proposed form of loan agreement for possible use after enactment of legislation such as the pending George-Murray Bill. Mr. John M. Hancock has requested that copies of the letter in question and of the enclosures therewith be furnished to all of the bankers who were invited to attend the meetings held at the offices of the Board of Governors on January 17 and 18, 1944, to consider war contract termination problems. A list of these bankers is attached. Accordingly, it is requested that you transmit the letter and its enclosures to any on this list who are located in your district, with a request for their comments and suggestions and with the statement that you are doing this pursuant to the request of Mr. Hancock."

5/10/44

-7-

Unanimous approval was also given to a letter to Mr. John M. Hancock of the Advisory Unit for War and Postwar Adjustment Policies, Office of War Mobilization, enclosing copies of the two letters to the Presidents.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. ...
Chairman.