

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, August 18, 1945, at 10:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. Draper

Mr. Carpenter, Secretary  
Mr. Connell, General Assistant,  
Office of the Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Chairman

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

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

"Following memorandum dated August 17, 1945, received from Navy Department signed by Comdr. Donald P. Welles, Chief of Finance Division, on procedure to be followed in connection with guaranteed loan program after August 14, 1945. Similar memorandum, signed by Maj. Gen. Carter, received from War Department.

'MEMORANDUM TO THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

'Subject: Guaranteed Loan Program after August 14, 1945

'1. The announcement of the Japanese agreement to surrender makes it appropriate for the Services to modify the guaranteed loan program, and accordingly the following instructions are issued by the War Department, the Navy Department and the Maritime Commission in connection with future administration of guaranteed loans by the Federal Reserve Banks.

'V AND VT LOANS

'2. Outstanding V and VT Loans. The rights and obligations of the guarantor (including the Federal Reserve Bank as its agent), the financing institution and the borrower under existing loans and guarantees, as defined in the documents relating

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"thereto, will not be affected by the surrender of Japan. In cases where outstanding loans require the consent of the Reserve Bank or the guarantor for the financing of production under additional war contracts, such consent should not be given without submission of the matter to Washington.

'3. Outstanding Authorizations. V-loan authorizations which were outstanding on August 14, 1945 may be executed in accordance with their terms, but the authority previously given to the Reserve Banks to extend such outstanding authorizations for a period of thirty days is hereby revoked. Requests for the extension of such authorizations should be referred to the guarantor, and its decision will be made in the light of the circumstances involved in each case.

'4. Pending Applications. Applications for V-loans which have been filed with the Reserve Banks and which were pending with the Reserve Banks or the Services on August 14, 1945 will, unless withdrawn by the financing institution, be processed in the usual way. In such cases, the guarantee will be confined to a loan with a borrowing formula limited to items under terminated war contracts, and borrowings under untermi-nated contracts will be permitted only if the circumstances stipulated in paragraph (7) below exist.

'5. Extensions of Maturity. The Reserve Banks are authorized to consent to requests for the extension of maturity of any V or VT loans under the 1942 or 1943 form of guarantee agreement maturing hereafter (whether it be an original maturity or a maturity resulting from an extension hitherto granted) when in the opinion of the Reserve Bank (concurred in by the Liaison Officer in the case of War Department guarantees) such extension is necessary for orderly liquidation of the loan, subject to the following conditions: (a) no such extension may exceed sixty days; (b) the borrower shall relinquish its rights under Section 6, except as to contracts terminated prior to the beginning of the period of the extension; and (c) the financing institution shall relinquish its rights under Section 5, except as

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"to contracts terminated prior to the beginning of the period of the extension. Pursuant to such relinquishment, contracts terminated during any such period of extension should be excluded from (a) or (x), as the case may be, and included in (b) or (y), as the case may be. Loans under the 1944 V-loan guarantee agreement may be extended by the financing institution under the terms of section 7 thereof. Additional extensions or an extension exceeding sixty days may be given only with the consent of the guarantor after submission to Washington. Previous instructions which are inconsistent with the instructions set forth in this paragraph are hereby revoked.

'6. Authority for new V-loans. The surrender of Japan has not resulted in termination of the war within the meaning of the First War Powers Act, 1941, under which Executive Order 9112 was issued. Accordingly, the War and Navy Departments and the Maritime Commission are still empowered to enter into contracts with financing institutions guaranteeing them against loss of principal or interest on loans, discounts or advances, or on commitments in connection therewith, which may be made for the purpose of financing any contractor, subcontractor or others engaged in any business or operation which is deemed by the War Department, the Navy Department or the Maritime Commission to be necessary, appropriate or convenient for the prosecution of the war.

'7. Policy as to new V-Loans. However, it will be the policy of the Services to enter into guarantees or new V loans (as distinguished from extending guarantees of outstanding loans or issuing guarantees of refinancing arrangements made in order to bring about orderly liquidation of outstanding guaranteed loans) only in exceptional cases and where there is a clear necessity for the procurement of supplies or services by the War Department, Navy Department or Maritime Commission from the particular borrower, and where no other means of adequate financing is available to that borrower. In such cases the financing institution will be expected to take an exposure clearly commensurate

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"with the risk involved, and the maturity will be limited strictly in accordance with the requirements of the particular contracts to be financed. Appropriate provision for borrowing against terminated contracts may be included in such loans.

'T-LOANS

'8. There will be no present change in the operation of the T-loan program. However, the special provision with respect to receivables on un-terminated subcontracts under terminated prime contracts, which was authorized by the Navy Department memorandum of April 24, 1945 attached to Board letter S-846 dated April 27, 1945 to be inserted in Exhibit D of the termination loan agreement, may not be inserted in T-loan agreements executed hereafter, unless the prospective borrower still holds war contracts which have not been fully terminated. If any case arises where the omission of this special provision will, in the opinion of the Reserve Bank, work an undue hardship upon the borrower, it is requested that such case be referred to the guarantor for its consideration.

'9. I am authorized to state that the War Department and the Maritime Commission concur in the above.

'10. It is requested that copies of the above instructions be transmitted to all Federal Reserve Banks and to Army Liaison Officers.'

Approved unanimously.

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

"Neither military nor civilian jeeps are classified as automobiles for purposes of Regulation W."

Approved unanimously.

Letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"There is enclosed herewith for your information a copy of a letter addressed to Chairman Eccles by Charles

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"B. Henderson, Chairman of the Board, Reconstruction Finance Corporation. The letter is self-explanatory."

Approved unanimously. The letter referred to above read as follows:

"With the thought that this may be a matter of concern to the Board of Governors of the Federal Reserve System, we are advising you that recently this Corporation cancelled its Blanket Participation Agreements with the First National Bank in Richmond, Richmond, California, and with the Escalon State Bank, Escalon, California, said Agreements being dated April 24, 1945 and June 7, 1945, respectively. This Corporation also denied liability under said Agreements with respect to the loans made by said banks to Renco, Ltd.

"For the same reason, we are also calling to your attention the following facts:

"According to our information, Renco, Ltd. is the assumed business name of Mrs. Jeannette R. Partridge, a certificate to that effect having been filed in Martinez Contra Costa County, California, approximately three months ago. Her husband owns the controlling interest in three banks: the First National Bank in Richmond, Richmond, California, the Escalon State Bank, Escalon, California, and the Bank of Hughson, Hughson, California. He is also president of the First National Bank of Richmond and director of the Escalon State Bank. The loan made by the Escalon Bank to Renco is secured by 1191 shares of the stock of the First National Bank of Richmond (the Richmond Bank has outstanding 3000 shares of common and 1000 shares of preferred stock) and the loan made to Renco by the Richmond Bank is secured by 151 shares of stock of the Bank of Hughson, California (the Hughson Bank has outstanding 3000 shares of common stock).

"In connection with the criss-crossing of the banks and the collateral securing the loans to Renco, Ltd., attention is particularly invited to 12 U.S.C. 83 and to Section 44 of Act 652 (the Bank Act), Deering's California General Laws (Vol. 1, page 241)."

Telegram reading as follows to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, in reply to his telegram of August 17, 1945, outlining the procedure which the Federal Reserve Bank

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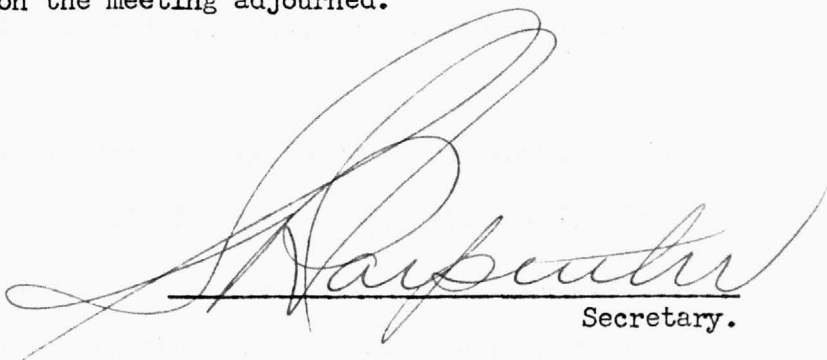
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of Kansas City proposed to follow in the handling of checks drawn on Nebraska banks, a few of which have notified the Reserve Bank that they did not intend to comply with the recent State law which requires the par clearance of checks:

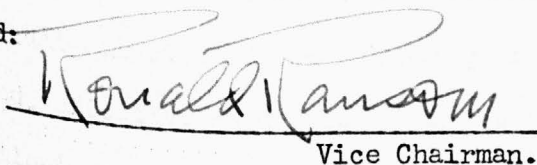
"Re your wire August 17, we have considered language of advices which you propose to give your endorsers with respect to the return of checks not paid at par and also action taken with respect to bank which made deduction in remitting for items forwarded to it. Procedure which you outline seems satisfactory and we have no suggestions to offer."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Vice Chairman.