

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, September 17, 1952. The Board met in the Board Room at 10:10 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Evans
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson

Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Noyes, Director, Division of Selective Credit Regulation
 Mr. Boothe, Assistant Director, Division of Selective Credit Regulation
 Mr. Hackley, Assistant General Counsel
 Mr. Connell, Technical Assistant, Division of Selective Credit Regulation

Before this meeting there had been sent to the members of the Board copies of a memorandum from Mr. Boothe, dated September 16, 1952, reporting developments in connection with a proposed loan of \$76,750,000 to be made to Reynolds Reduction Company, of Richmond, Virginia, a newly organized subsidiary of Reynolds Metals Company, by a group of banks and insurance companies and guaranteed by General Services Administration. This matter had been discussed at meetings of the Board on August 8, August 12, September 3, and September 11, 1952, and following the September 11 meeting, which was attended by Mr. Larson, General Services Administrator, and members of his staff,

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the Board authorized Mr. Boothe to suggest to General Services Administration a basis for further negotiations with the lending institutions.

Mr. Boothe's memorandum stated that he had been advised by Mr. Phelan, Vice President of the Federal Reserve Bank of New York, that a conference was held at the Reserve Bank on September 16, with representatives of the lending institutions, the borrower, and the guaranteeing agency, and that the following proposal was submitted to Mr. Phelan for presentation to the Board:

1. The maximum premium payable upon voluntary prepayment in full of the bonds and notes representing the indebtedness would be 5 per cent, which premium would prevail through the year 1958, with reductions on January 1, 1959, and annually thereafter.
2. No premium would be payable if it became necessary for a refunding to take place in connection with additional facilities which would require the consolidation of this debt with a new one to be guaranteed by the United States Government.
3. The loan agreement and bond purchase agreement would prohibit any partial refunding of the bonds and notes.
4. The commitment fee of 1.7 per cent paid by the borrower to the lending institutions since July 1, 1952, would continue

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to be paid until such time as the guarantee agreement became effective, when it would be reduced to one-half of one per cent, but the fee would be paid by Reynolds Metals Company rather than Reynolds Reduction Company until the execution of the guarantee agreement.

Members of the staff reviewed for the benefit of Chairman Martin developments in the matter which had occurred in his absence, and there ensued an extended discussion of the terms and conditions of this particular transaction, the outstanding regulations of the Board regarding commitment fees and termination fees and their applicability to this financing, the responsibilities of the Board in respect to this specific loan and the guaranteed loan program in general, and the action which should be taken concerning the proposed loan to Reynolds Reduction Company.

In the course of the discussion, it was agreed that inasmuch as the terms and conditions of the proposed loan had been brought to the attention of the Board, it would be incumbent upon the Board to take cognizance of them. It was also agreed that inasmuch as the Board had discussed the matter with General Services Administration and suggested a course of action to that agency and the proposed terms and conditions had been resubmitted to the Board for its consideration,

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a meeting with representatives of all of the guaranteeing agencies should now be arranged for the purpose of obtaining their views concerning the questions under discussion, after which further consideration would be given by the Board to possible changes in its present regulations.

The discussion then turned to a consideration of the views to be expressed by Board representatives at the meeting with the guaranteeing agencies.

With respect to commitment fees, it was the consensus that it should be stated the Board was inclined to adhere to its outstanding rule, which provided a maximum commitment fee of 1/2 of one percent, and that the Board would not be inclined to favor the payment of any fee prior to the date of execution of the loan documents in connection with a guaranteed loan.

With respect to the provision for a prepayment penalty, a majority of the members of the Board expressed the view that a premium, if set at a reasonable figure, might be justified in the case of a long-term loan for facilities provided that no such premium should be payable in the event of consolidation of the debt with any subsequent loan to be guaranteed by the Government or to be made by the Reconstruction Finance Corporation or any other agency of the Government.

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On this point, however, Governor Mills stated that he could see no justification for a request by lending institutions for inclusion of a prepayment penalty in the case of a guaranteed loan, that he felt the Board had a responsibility in connection with the V-loan program to protect the interests of the Government, and that provision for a prepayment premium might be contrary to the interests of the Government in circumstances where, except for such a premium, the borrower would be able to refinance the indebtedness through private channels and the Government would be relieved of its contingent liability.

At the conclusion of the discussion, it was agreed unanimously that Governor Vardaman should arrange for a meeting with the guaranteeing agencies immediately for the purpose of obtaining the benefit of their views on the matters under discussion.

Unanimous approval was given to the request contained in a memorandum from Mr. Young, Director, Division of Research and Statistics, dated September 16, 1952, that he be permitted to continue to serve as professorial lecturer at George Washington University during the coming school year.

At this point all of the members of the staff except Messrs. Sherman and Kenyon withdrew and the following additional actions were taken by the Board:

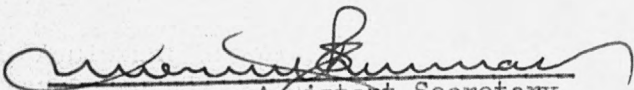
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Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 16, 1952, were approved unanimously.

Memorandum dated September 15, 1952, from Mr. Leonard, Director, Division of Bank Operations, recommending that the resignation of Frances Louise Franklin, Statistical Clerk in that Division, be accepted to be effective, in accordance with her request, at the close of business September 15, 1952.

Approved unanimously.


Assistant Secretary.