Minutes for September 12, 1958

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin		x M
Gov. Szymczak	x MS	
Gov. Vardaman	x	
Gov. Mills	x	
Gov. Robertson	x R.	
Gov. Balderston	x CCB	
Gov. Shepardson	x CNS	

Minutes of the Board of Governors of the Federal Reserve System on Friday, September 12, 1958. The Board met in the Special Library at 9:45 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak 1/
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Boothe, Administrator, Office of Defense Loans
Miss Burr, Associate Adviser, Division of Research and Statistics
Mr. Benner, Assistant Director, Division of Examinations

Report on mobilization activities (Item No. 1). On August 14, 1958, the Board received a request from Senator Robertson as Chairman of the Joint Committee on Defense Production for a factual summary of mobilization activities of the Board during the past year for inclusion in the Eighth Annual Report of the Joint Committee to the Congress. The request was somewhat more broad than those in previous years, which related only to programs carried out under the Defense Production Act. Accordingly, the report proposed for submission to the Committee covered the preparedness program of commercial banks as well as activities under

1/ Entered at point indicated in minutes.

the V-loan program. Copies of the proposed report had been distributed to members of the Board prior to the meeting, together with a memorandum from Mr. Leonard dated September 10, 1958.

The report was unanimously approved for transmittal to the Joint Committee in the form attached to these minutes under Item No. 1.

At this point Governor Szymczak and Messrs. Hackley, General Counsel, and Molony, Special Assistant to the Board, joined the meeting and Mr. Boothe withdrew.

Library of Congress report on monetary policy. As reported to the Board at its meeting on August 27, there had been received from Senator Fulbright a letter dated August 26, 1958, which requested staff comments on the revised draft of a study entitled "Federal Reserve Policy and Economic Stability 1951-57" prepared for the Senate Banking and Currency Committee by the Legislative Reference Service of the Library of Congress. Prior to this meeting there had been circulated to the members of the Board a proposed reply for the signature of the Chairman which would be accompanied by a memorandum incorporating the staff comments on this study.

There followed a general discussion of the proposed letter and attached comments, relating both to the substance and to the form of the reply. It was the consensus that the transmittal letter should contain a request for its publication, along with the staff comments, in the printed report, but that the letter should be prepared in somewhat briefer form and that certain specific comments on the Library of Congress study now enumerated in the letter should be incorporated instead in the memorandum of staff comments. The memorandum, it was suggested, should be edited in such a way as to present more forcefully and clearly to the average reader the import of the major points discussed therein.

Because of the nature of the study, which reflected the personal analysis of its author, Dr. Achinstein, concern was expressed lest the impression be created upon publication that it reflected the views of the Senate Banking and Currency Committee, much in the manner of a Committee report released following hearings. It was noted that discussion by the Board's Legislative Counsel with the staff of the Committee had resulted in an indication that the title page of the printed study would contain language more nearly representative of the actual circumstances. Nevertheless, the element of possible confusion served to reinforce the view of the Board that the staff comments to be published with the document should be presented as effectively as possible and that the transmittal letter over the Chairman's signature also should be included with the published study.

At the conclusion of the discussion it was understood that the staff would prepare a revised draft of the transmittal letter and the staff comments to be attached, taking into account the views expressed at the meeting, with a view to further consideration by the Board at its meeting on September 15.

Fiscal agency activity of the Federal Reserve Bank of New York (Item No. 2). In a letter dated September 10, 1958, the Federal Reserve Bank of New York had requested approval by the Board for its acting as fiscal agent in respect to a proposed issue of two-year bonds by the International Bank for Reconstruction and Development. Prior to the meeting there had been circulated to the members of the Board a proposed letter which would indicate the Board's approval.

It was unanimously agreed to approve the letter, a copy of which is attached to these minutes as Item No. 2.

Thereupon the meeting adjourned.

Kenneth A. Kenyon
Assistant Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
9/12/58

OFFICE OF THE VICE CHAIRMAN

September 12, 1958

The Honorable A. Willis Robertson,
Chairman,
Joint Committee on Defense Production,
Congress of the United States,
Washington 25, D. C.

Attention: Mr. Harold J. Warren, Clerk and Counsel,
Room 927, H.O.L.C. Building,
101 Indiana Avenue, Northwest,
Washington 25, D. C.

Dear Senator Robertson:

In response to your letter of August 14, 1958, attached is a factual summary covering mobilization activities of the Board of Governors for the past year.

The summary covers two programs--the V-Loan Program, which is the only program carried out by the Board under authority of the Defense Production Act, and a program related to the preparedness of commercial banks being carried out under the provisions of Defense Mobilization Order I-20.

During the year, the Board of Governors and the Federal Reserve Banks have continued their preparedness programs, and have continued the study of measures to be taken in the monetary and credit field in the event of an emergency.

Sincerely yours,

C Canby Balderston

C. Canby Balderston,
Vice Chairman.

Attachment.

1. Mobilization programs conducted by your office, including the "V-loan Program" conducted under the authority of the Defense Production Act as amended and the implementing Executive Orders.

The Federal Reserve Banks, under regulations of the Board of Governors, act as fiscal agents of the United States in connection with the V-loan program for Government guarantees of defense production loans, and the Board of Governors, after consultation with the guaranteeing agencies, prescribes fees, rates and procedures to be utilized in connection with such guarantees.

2. The authority from which your office derives its powers for such programs.

The present "V-loan Program" of Government guarantees of loans to finance defense production was inaugurated under authority of the provisions of section 301 of the Defense Production Act of 1950, approved September 8, 1950, and the President's Executive Order 10161, dated September 9, 1950, subsequently superseded by Executive Order 10480, dated August 14, 1953. Under the law, as amended by the Defense Production Act Amendments of 1958, authority for the program, unless further extended, will terminate on June 30, 1960.

3. A summary of each program.

Pursuant to the law and Executive Orders of the President, certain designated procurement agencies of the Government are authorized to guarantee loans made by private financing institutions to finance contractors, subcontractors and others engaged in the performance of Government defense contracts for the purpose of expediting production and deliveries or services for the national defense. By an amendment made by the Defense Production Act Amendments of 1953 guarantees may also be issued with respect to loans made to finance contractors, subcontractors or other persons in connection with or in contemplation of the termination of their defense contracts.

At the outset of the program the designated guaranteeing agencies were the Departments of the Army, Navy, Air Force, Commerce, Interior and Agriculture, and the General Services Administration. In 1951 the Atomic Energy Commission and Defense Materials Procurement Agency were also designated as guaranteeing agencies. By Executive Order 10480 of August 14, 1953, the Defense Materials Procurement Agency was abolished and its functions transferred to the General Services Administration.

On July 31, 1958, guarantee agreements outstanding totaled $500,436,000. Of this amount, approximately 75 per cent on the average was guaranteed by the Government. Under these guarantee agreements in force on July 31, loans outstanding amounted to $306,136,000 and there was available to borrowers an additional $194,300,000.

For the past several years the amount of outstanding guarantee agreements has remained rather constant indicating that the new guarantees authorized about equaled in amount those terminated each year. The guarantee agreements outstanding by the various agencies participating in the program follows:

Department of the Army	$29,146,000
Department of the Navy	186,443,000
Department of the Air Force	231,162,000
General Services Administration	48,264,000
Atomic Energy Commission	5,422,000

The net guarantee fees and interest on purchased loans collected by the guaranteeing agencies after deducting established losses, administrative costs and the expenses of the Federal Reserve Banks as fiscal agents as of July 31, 1958, follows:

Department of the Army	$5,185,000
Department of the Navy	8,767,000
Department of the Air Force	11,380,000
General Services Administration	4,500,000
Atomic Energy Commission	450,000

No loans have been purchased by the Atomic Energy Commission. The Department of the Army has purchased 30 loans aggregating $15,731,000. Liquidation on these loans has amounted to $12,831,000. Losses charged off have amounted to $176,000. The Department of the Navy has purchased 18 loans aggregating $26,957,000. Liquidation on these loans has amounted to $26,746,000 and losses charged off have amounted to $3,000. The Department of the Air Force has purchased 3 loans aggregating $4,330,000. The liquidation on these loans has amounted to $1,846,000 and no losses have been established. The General Services Administration has purchased 1 loan in the amount of $270,000. There has been no liquidation on this loan and no loss has been established.

There has existed since the inauguration of the "V-loan Program" complete cooperation and understanding between the guaranteeing agencies, the staff of the Board of Governors and the Federal Reserve Banks. Any differences that have arisen have been promptly settled and the primary purpose in the minds of all connected with the program has been to facilitate the financing of defense contractors as provided in section 301 of the Defense Production Act of 1950 as amended, and the implementing Executive Orders.

4. A statement on the effectiveness of each program.

5. A statement on the current need for the programs.

6. A summary of the programs as related to small business.

The guaranteed loan program was successful and fulfilled a useful purpose during World War II and has been effective during the present rearmament period. It provides a mechanism whereby defense contractors and subcontractors, particularly small business concerns, can arrange to borrower the funds necessary to finance their defense production through their local banks by means of Government guaranteed loans rather than through the advance of Government funds or direct Government loans.

From the beginning of the program in September 1950 through July 31, 1958, 1,523 loans totaling $3,033,000,000 were authorized by the procurement agencies which may guarantee such loans under the Defense Production Act of 1950, as amended.

There was disbursed during the last 12 months since July 31, 1957, approximately $707,200,000 on outstanding V-loans, most of which are revolving credits.

The large amount of defense work financed through the medium of V-loans can be realized when you consider that the average ratio of the dollar value of contracts held by borrowers to the amount of money borrowed under the V-loan program to finance such contracts has been about 6 to 1.

The following tabulation shows the number and amount of guaranteed loans authorized at the end of each month in the period August 1957 through July 1958.

	Guaranteed loans authorized to date	
	Number	Amount (In thousands of dollars)
1957		
August 31	1,497	$2,879,682
September 30	1,498	2,881,972
October 31	1,498	2,887,958
November 30	1,500	2,906,458
December 31	1,503	2,911,583

	Guaranteed loans authorized to date Number	Amount (In thousands of dollars)
1958		
January 31	1,506	$2,922,933
February 28	1,511	2,934,880
March 31	1,512	2,936,430
April 30	1,514	2,936,900
May 31	1,516	2,952,250
June 30	1,522	3,029,459
July 31	1,523	3,033,009

Eighteen per cent of the number and approximately one per cent of the amount of loans authorized consisted of loans under $100,000 while 56 per cent of the number and 6 per cent of the amount were under $500,000.

Eleven per cent of the number and one per cent of the amount of loans authorized were to borrowers having assets of under $100,000; approximately 42 per cent of the number and 8 per cent of the amounts were to borrowers having assets of under $500,000; 57 per cent of the number and 12 per cent of the amount were to borrowers having assets of under $1,000,000.

Approximately 73 per cent of the number and 19 per cent of the amount of loans authorized were to borrowers having less than 500 employees, including employees of affiliated concerns under common ownership or control. Approximately 75 per cent of the number and 23 per cent of the amount of loans authorized were to borrowers individually having less than 500 employees.

The following tabulation shows a breakdown of guaranteed loans authorized as of July 31, 1958, by size of loan:

PERCENTAGE DISTRIBUTION OF V-LOANS AUTHORIZED
THROUGH JULY 31, 1958, BY SIZE OF LOAN

Size of Loan	Percentage of guaranteed loans authorized: Number	Amount	Cumulative percentage distributions: Number	Amount
Under $50,000	7.3	.1	7.3	.1
$50,000 - $99,999	10.4	.5	17.7	.6
$100,000 - $249,999	19.6	1.9	37.3	2.5
$250,000 - $499,999	18.6	3.8	55.9	6.3
$500,000 - $999,999	15.6	6.1	71.5	12.4
$1,000,000 - $4,999,999	22.2	28.0	93.7	40.4
$5,000,000 - $9,999,999	3.1	12.3	96.8	52.7
$10,000,000 and over	3.2	47.3	100.0	100.0

Percentage distribution of the guaranteed loans authorized from the beginning of the program to the end of July 1958, is shown below, classified by number of employees of the borrower.

PERCENTAGE DISTRIBUTION OF V-LOANS AUTHORIZED THROUGH JULY 31, 1958, BY NUMBER OF EMPLOYEES OF BORROWER

Number of Employees	Percentage of guaranteed loans authorized		Cumulative percentage distributions	
	Number	Amount	Number	Amount
Number of employees of borrower, including affiliated concerns under common ownership or control				
Under 25	8.1	.6	8.1	.6
25 - 49	10.7	.8	18.8	1.4
50 - 74	9.0	1.2	27.8	2.6
75 - 99	6.8	1.2	34.6	3.8
100 - 149	9.5	1.9	44.1	5.7
150 - 249	13.1	4.3	57.2	10.0
250 - 499	15.3	8.9	72.5	18.9
500 - 999	11.0	10.8	83.5	29.7
1,000 - 2,499	7.2	14.4	90.7	44.1
2,500 and over	5.6	53.5	96.3	97.6
Not available	3.7	2.4	100.0	100.0
Number of employees of borrower only (not including affiliated concerns under common ownership or control)				
Under 25	9.0	.9	9.0	.9
25 - 49	11.3	1.2	20.3	2.1
50 - 74	9.8	1.3	30.1	3.4
75 - 99	7.0	1.2	37.1	4.6
100 - 149	9.1	1.9	46.2	6.5
150 - 249	13.5	6.1	59.7	12.6
250 - 499	15.3	9.9	75.0	22.5
500 - 999	10.7	11.6	85.7	34.1
1,000 - 2,499	6.1	13.9	91.8	48.0
2,500 and over	4.4	42.6	96.2	90.6
Not available	3.8	9.4	100.0	100.0

7. Major problems which now confront your office in carrying out mobilization programs, including the "V-loan Program".

None.

8. Changes in mobilization planning and readiness measures to meet future emergencies, including the "V-loan Program."

The Federal Reserve Banks have plans to conduct the essential operations of the banks from relocation offices in the event of an emergency. The Reserve Banks plan to continue to perform such fiscal agency functions under the V-loan program as the situation then prevailing permits.

9. Summary of any standby programs for any future emergency.

The only Federal Reserve program authorized under the Defense Production Act is the V-loan program. Plans contemplate that the Federal Reserve Banks and the Board will be prepared to participate in an expanded V-loan program suitable to any future emergency needs.

10. Changes in organization during the past year.

None.

11. Future objectives.

As stated in section 301 of the Defense Production Act, the objective of the guaranteed loan program continues to be "to expedite production and deliveries or services under Government contracts."

12. Availability of funds for defense needs, including the "V-loan Program."

The guaranteeing agencies are authorized to use any monies appropriated to them for defense purposes to meet any costs and expenses in connection with the V-loan program.

13. A statement of action taken as a result of any recommendations of the Joint Committee on Defense Production.

None.

14. Such other information as may appear pertinent in summarizing your mobilization activities for the past year, including the "V-loan Program."

Under the provisions of the Defense Production Act of 1950 as amended, the Attorney General is directed to make reports to the President of the United States and to both Houses of Congress on the results of surveys made for the purpose of determining any factors which may tend to eliminate competition, create or strengthen monopolies, injure small business, or otherwise promote undue concentration of economic power in the course of the administration of the Defense Production Act.

After an extensive survey, the Attorney General on August 8, 1958, rendered such a report. The following conclusions were reached by the Attorney General regarding the V-loan program.

> Our broad survey of the Defense Production Act V-loan program indicates that, on the whole, it operated satisfactorily. The program appears to have yielded material benefits to the three parties involved--the lenders, the borrowers and the Government.
>
> The program resulted in considerable benefits to the Government. The $2.9 billion in V-loan credits and the more than $11.6 billion in disbursements under those credits, involved the expenditure of private, not Government, funds. That the Government guaranteed the private lenders against most of the loss was sufficient to set in motion this large volume of defense production financing. Finally, contrary to many other Government financing programs, the V-loan program has been self-sustaining. The Government has thus far netted a profit in excess of $27 million, more than its profit under a World War II V-loan program involving a threefold greater volume of loans.
>
> The lenders, who in almost all cases were commercial banks, were enabled to extend close to $3 billion in credits at a minimum of risk and at a fair rate of profit, considering the lessened risk and the sharing of interest with the Government. The lending institutions did not face any loss of business through direct Government financing, since it was they who made and serviced the loans, disbursed their own funds, and decided whether to apply for a Government guaranty against loss. Moreover, the guaranteed portions of V-loans were not counted in computing the legal lending limitations governing the banks. Accordingly, to the extent that the loans were guaranteed, the banks did not commit their legal lending authority and were able to make non-guaranteed loans to others.
>
> In general, the borrowers benefited from the V-loan program since they were enabled to obtain a large volume of credits to finance their defense production on reasonable terms and for rather extended maturities. These were credits which in many cases would not have been available to them through other channels. In most cases, however, the borrowers did not have

to mortgage their fixed assets to obtain these credits; it was sufficient merely to assign as security the monies payable on the defense contracts which were being financed.

The small and medium size groups of contractors by far predominated among the borrowers. While their share of the dollar volume of the program was substantially less than that of larger firms, it closely paralleled their proportion of defense contracts. Moreover, since their scale of operations was smaller, smaller business did not need or request anything like the dollar volume of V-loans obtained by large business. Indeed, if none of their V-loan applications had been rejected, small business would have received only a very slight additional share of the entire program.

Small business received some particular benefits under the program. Since 1953 their applications, unlike those of large business, could not be denied merely because the goods and services for which V-loan financing was sought, were readily available from other sources. Moreover, the Government's ceiling on interest rates and its assumption of most of the risk of loss resulted in small business paying a lower interest rate on V-loan credits than it would have had to pay on nonguaranteed loans. Further, customary commercial credit standards may have been somewhat relaxed in small business loans, since many small business firms received V-loans considerably in excess of their total assets.

Apart from these benefits, the program enabled many small business firms to undertake defense contracts and subcontracts with the reasonable expectation that they could obtain sufficient working capital to proceed. It would appear, then, that the program broadened the base of firms seeking and undertaking defense contracts and subcontracts.

It is difficult to measure further the competitive effects of the V-loan program because of the unsuitability of available data for detailed analysis. However, in general, it must be recognized that the V-loan program, designed to aid defense procurement, followed, rather than determined, the pattern of such procurement. That pattern involves a host of elements, of which the ability of the would-be defense contractor to finance his production is only one. Nevertheless by increasing the availability of such financing, this program widened the potential of firms to compete for defense contracts and subcontracts, and thus aided rather than adversely affected competition.

In reinstituting the V-loan program in 1950, Congress professed its satisfaction with the way it had operated during World War II. Our survey indicates that the present program closely paralleled the earlier experience.

COMMERCIAL BANK PREPAREDNESS PROGRAM

1. Mobilization programs conducted by your office.

Development of plans, in cooperation with the Department of the Treasury, including the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, to encourage preparedness measures by the commercial banking system designed to assure continuity of operations of the banking system in the event of enemy attack, including the preservation of essential records.

2. The authority from which your office derives its powers for such programs.

Defense Mobilization Order I-20.

3. A summary of each program.

This program seeks to accomplish its purpose (1) by acquainting commercial banks with the importance of making plans for preservation of essential records and continuation of operations in the event of attack, and (2) by providing guidance as to how this might be done.

Two committees of bankers are working on the program--an Advisory Committee on Commercial Bank Preparedness and a Banking Committee on Emergency Operations, the latter a committee composed of senior operating officers.

During the first part of this year, the committees have issued and distributed to all banks in the country copies of five booklets describing preattack preparedness measures. The committees are now working on a series of booklets concerning measures and operations following a destructive attack.

4. A statement on the effectiveness of each program.

So far, emphasis has been on the preparation and distribution of the booklets referred to in No. 3 above. The next step is to encourage bankers to undertake the precautionary measures for their own institutions. It is, therefore, too early to comment on the effectiveness of the program.

5. A statement on the current need for the programs.

It is believed that an effectively functioning banking system would be essential to the nation in time of war as well as in peace, and that adequate preparedness measures are essential for such a continuing banking system.

6. A summary of the programs as related to small business.

The program relates to the entire economy, to small business as well as large.

7. Major problems which now confront your office in carrying out mobilization programs.

General lack of realization of the necessity for such a program.

8. Changes in mobilization planning and readiness measures to meet future emergencies.

None.

9. Summary of any standby programs for any future emergency.

None.

10. Changes in organization during the past year.

None.

11. Future objectives.

Implementation of the program.

12. Availability of funds for defense needs.

Not applicable.

13. A statement of action taken as a result of any recommendations of the Joint Committee on Defense Production.

None.

14. Such other information as may appear pertinent in summarizing your mobilization activities for the past year.

Accompanying this summary report are copies of the five booklets referred to in Item 3.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
9/12/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 12, 1958

Mr. H. A. Bilby, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Bilby:

This refers to your letter of September 10, 1958, and its enclosures, concerning the proposed issue by the International Bank for Reconstruction and Development of its Two Year Bonds of 1958, due October 1, 1960. In that letter you state that it is proposed to amend Schedule A of the Fiscal Agency Agreement dated as of February 6, 1950, between the International Bank and your Bank to include the bonds in question.

The Board of Governors approves of your Bank acting as Fiscal Agent in respect of the proposed issue by the International Bank of Two Year Bonds of 1958, due October 1, 1960, and approves the execution and delivery by your Bank of an Agreement with the International Bank in the form or substantially in the form of Supplement No. 15 to the Fiscal Agency Agreement dated as of February 6, 1950, between your Bank and the International Bank, enclosed with your letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.