

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1942



Dear Sir:

The Board has received from the War Department a memorandum dated September 14, 1942, signed by Lieutenant Colonel Paul Cleveland, regarding the necessity for including in guarantee agreements, in summary form, all of the terms and conditions of the loan required by the War Department's instructions. A copy of this memorandum is enclosed for your information and guidance.

We are informed by the War Department that the word "substantially" as used in paragraph 2 of the enclosed memorandum is to be read in the light of the memorandum from the War Department dated August 15, 1942, referred to in our letter of August 18, 1942, with regard to minor changes in conditions prescribed.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY



WAR DEPARTMENT

Headquarters, Services of Supply
Washington, D. C.

September 14, 1942

MEMORANDUM: From the War Department to the Board of Governors of the Federal Reserve System

SUBJECT: Review of executed guarantee agreements: omission of terms and conditions required by the War Department's instructions to the Federal Reserve Banks

1. As the result of a review of a certain number of executed guarantee agreements, and of correspondence with some of the Federal Reserve Banks on the subject, it has become apparent to the War Department that there is some misunderstanding between it and the Federal Reserve Banks about the procedure to be followed in executing guarantee agreements that have been authorized by the War Department. It is hoped that this memorandum will serve to explain the position of the War Department on this subject.

2. All of the terms and conditions of the loan substantially as specified in the War Department's instructions (which in almost all cases are the terms and conditions recommended by the Federal Reserve Bank) should always be stated in summary form in the guarantee agreement or in some document expressly referred to in the guarantee agreement. The reasons for this procedure are:

a. The terms and conditions are a part of the description of the kind of loan that the War Department is willing to guarantee. They thus constitute an important part of the contract of guarantee between the War Department and the financing institution, and they should therefore appear in the formal guarantee agreement, which is the sole contract between the War Department and the financing institution. Otherwise, there may be some doubt whether they constitute a part of the contract between the War Department and the financing institution.

b. In those cases where some of the terms and conditions are transmitted by the Federal Reserve Bank to the financing institution, but

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are not included in the formal guarantee agreement, it may always be possible for the financing institutions, without bad faith, to modify or waive these conditions after the guarantee agreement has been executed.

3. In those cases where a review of the guarantee agreement shows that some of the required terms and conditions have been omitted, it is necessary for the War Department to ask the Federal Reserve Bank whether or not the terms and conditions in question have been covered outside of the guarantee agreement. The War Department must always be prepared to respond to any request that may come to it from the General Accounting Office for information as to the entire guarantee transaction between the War Department and the financing institution.

4. Kindly transmit the foregoing to all of the Federal Reserve Banks.

War Department of the United States

By: (Signed) Paul Cleveland

PAUL CLEVELAND

Lt. Colonel, A.U.S.

Chief, Loan Section.

Advance Payment and Loan Branch