

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

S-559

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



September 26, 1942.

Dear Sir:

For your information there is enclosed a copy of a letter which the Board has received from the Maritime Commission, dated September 22, 1942, signed by R. E. Anderson, Director of Finance, suggesting that we call your attention to the following questions which have arisen in connection with the various applications received from financing institutions for Regulation V loans:

1. Dividend policy of the borrower.
2. Executive salary policy of the borrower.
3. Tax liability policy of the borrower.
4. Financial arrangements for additional business.

Very truly yours,

S. R. Carpenter,  
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



## UNITED STATES MARITIME COMMISSION

S-559-a

WASHINGTON

Mr. K. R. Cravens  
War Loans Administrator  
Board of Governors of the  
Federal Reserve System  
Washington, D. C.

September 22, 1942

Dear Mr. Cravens:

Without in any way desiring to restrict the judgment of the Federal Reserve Banks, who are agents for the Maritime Commission in executing loans guaranteed under Executive Order No. 9112, it is suggested that you bring to the attention of all Federal Reserve Banks the following questions which have arisen in connection with the various applications received from financing institutions for Regulation V loans:

1. Dividend policy of the borrower. Ordinarily, it is appropriate to require that there be no payment of dividends during the existence of the guarantee. However, there may be conditions where the continuation of a regularly established dividend policy is proper, or where other special considerations may govern the matter of dividend policy.

2. Executive salary policy of the borrower. It is frequently appropriate to examine the matter of salaries paid. Obviously, there can be no fixed rule, but considerable judgment should be exercised to insure that such salaries are reasonable and not disproportionate to the volume and character of the business and responsibility of the individuals, and particularly to safeguard against any extraordinary increases of salaries incident to the taking on of Government business.

3. Tax liability policy of the borrower. Since it is the policy of the Commission to consider Regulation V loans for guarantee only for working capital purposes, the provision of funds for taxes based upon profits growing out of the contracts being financed by such loans is ordinarily automatically cared for; however, tax liabilities existing at the time of the loan, and arising from other business, should be taken into consideration, and great care should be taken that profits subject to tax are not used for fixed asset purposes or otherwise made unavailable for discharge of tax liabilities, thus imperiling a loan.

4. Financial arrangements for additional business. The necessity of seeing to it that any additional business taken on after the negotiation of guaranteed loans is otherwise adequately financed sometimes calls for special attention, particularly, when the additional business is relatively substantial in amount.

Very truly yours,

(Signed) R. E. Anderson

R. E. Anderson  
Director of Finance.