

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



S-564

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 8, 1942

Dear Sir:

In connection with the execution of guarantee agreements pursuant to Executive Order No. 9112, a question recently arose at one of the Federal Reserve Banks as to whether mortgages may be taken as security for guaranteed loans where there is a possibility of conflict between the Government's rights under section 14 of the standard supply contract and the rights of the financing institution under the mortgage. The question was referred to the War Department by the Board of Governors, and the Board has now received a memorandum from the War Department dated October 5, 1942, containing the following statement of the War Department's views with respect to this question:

"2. It is not contrary to the policy of the War Department for mortgages to be taken on materials purchased with the proceeds of a guaranteed loan provided that assignment of the contract is also taken as security. Payments under Article 14 would thus flow to the bank in full or partial satisfaction of the mortgage. If such payments did not constitute full satisfaction nevertheless the mortgagee should have the right to foreclose. If the Government desires to protect itself from the so-called 'spreader' clause to be inserted in new guarantee agreements it would have to exercise its right of taking over the loan under Section 7 of the guarantee agreement.

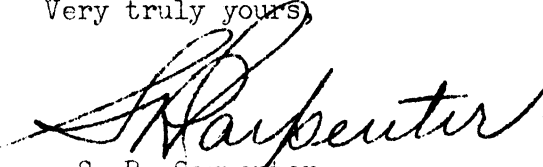
"3. In the normal case, it is believed that any conflict that may exist can be ironed out by negotiations.

"4. Nothing in the above is intended to indicate that mortgages should be taken as a general practice. In cases other than that of weak contractors the War Department in general prefers open lines of credit secured only by assignments of contracts and the usual covenants in loan agreements or by covenants to assign



at the demand of the guarantor in the case of larger credits to sound concerns where because of the number of contracts and purchase orders involved assignment is administratively cumbersome."

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter". The signature is written in dark ink and is positioned above the typed name.

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS