

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-574

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 23, 1942



Dear Sir:

In connection with the execution of guarantee agreements pursuant to Executive Order No. 9112, certain questions have recently arisen as to the interpretation of the words "original maturity" appearing in section 1 of the standard form of guarantee agreement. The Board has now received from the War Department a memorandum dated October 5, 1942, setting forth the War Department's views with respect to these questions.

With respect to whether the words "original maturity", as here used, refer to an accelerated maturity, the War Department in this memorandum takes the view that these words "were intended to refer to the expressed maturity of a loan and were not intended to refer to accelerated maturity whether automatic or optional."

With respect to whether, in the case of a revolving credit, the words "original maturity" refer to the maturity of a note representing a particular advance under the revolving credit or to the date of final maturity of the credit agreement, the War Department's memorandum contains the following statement:

"The guarantee agreement was originally drafted with a term loan in mind rather than a revolving credit. Consequently, there is some ambiguity in the case of revolving credit as to whether the 60-day period starts running from the date of maturity of the note representing a particular advance rather than from the date of final maturity of the revolving credit as expressed in the loan agreement. * * *

"Consequently, the War Department has always held the view, in which it is believed the Navy Department concurs, that the words 'original maturity' in section 1 of the guarantee agreement as applied to a revolving credit means the date expressed in the loan agreement for the termination of the credit rather than the date of any particular note issued in accordance with that



"credit. It is believed that this is the only interpretation consistent with the last sentence of section 1 of the guarantee agreement which reads as follows:

'Where the loan is payable in two or more amounts or instalments maturing at different times, the maturity of the loan shall be the maturity of the amount or instalment which is last due.'

In this connection, the War Department points out that to interpret the words "original maturity" as referring to the date of maturity of a note representing a particular advance would mean that a financing institution in case of a revolving credit would have to "put" within 60 days after the expiration of the date at which a particular note became due even though the financing institution is obligated to extend additional credit; and that this would increase the likelihood of "puts" and would seem undesirable to the War Department. The War Department has given consideration to the inclusion in guarantee agreements of a special condition clarifying this question, but has concluded that such action is unnecessary in view of the interpretation above expressed. In this connection, the War Department's memorandum states:

"It was also felt that such an interpretative provision might throw some doubt on existing guarantees of revolving credits and that it would be better simply to notify all Federal Reserve Banks of this interpretation with authority to give any financing institution having doubt as to the interpretation a letter expressing the views of the guarantor."

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS