

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-601

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1942

Dear Sir:

There is enclosed for your information and guidance copy of a memorandum dated December 10, 1942, signed by Col. John C. Mechem, Signal Corps, U.S.A., setting forth the procedure to be followed with respect to the purchase by the War Department of the guaranteed portion of guaranteed loans. We are advised by Mr. William A. Coolidge, Acting Chief, Finance Section, Navy Department, and by Mr. B. B. Griffith, Assistant to Director of Finance of the Maritime Commission, that the procedure outlined in the War Department memorandum of December 10 is satisfactory to the Navy Department and the Maritime Commission.

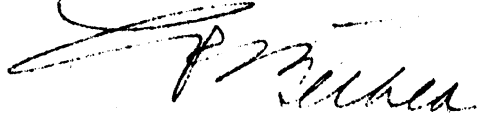
The Navy Department has also advised us that the written demand for purchase of principal and interest submitted by a financing institution must contain sufficient information to identify the loan, and state (a) the unpaid principal amount of the loan on the date of the demand for purchase, (b) the amount of interest due and unpaid on the date of the demand for purchase, (c) the percentage of the loan to be purchased, and (d) that the statements contained in the written demand are correct and just. It is assumed that in most cases at least a financing institution will be in touch with you prior to the submission of a formal demand for purchase and that it will be a simple matter for you to tell it to include the above data in its written demand. If the written demand as submitted does not contain all such information, the Navy Department requests that you follow the procedure specified in the enclosure herewith and in addition proceed immediately to obtain a statement from the financing institution which will contain the above information. Three copies of the revised statement from the financing institution containing the information specified above should be forwarded to Washington by air mail as soon as received, and wire advice of its mailing should be promptly transmitted to the Board.

Statements in the form outlined above in the case of the Navy Department will be satisfactory to both the War Department and the



Maritime Commission, but we have been advised informally by representatives of the War Department and Maritime Commission that a demand for purchases received from a financing institution which is in such form as, in the opinion of your counsel, constitutes an effective demand under the terms of the guarantee agreement will be sufficient.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

C O P Y

S-601a

WAR DEPARTMENT
HEADQUARTERS, SERVICES OF SUPPLY
WASHINGTON, D.C.

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December 10, 1912

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

SUBJECT: Procedure with respect to Purchase of Guaranteed Portion of Guaranteed Loans.

1. It is requested that the Board of Governors notify all Federal Reserve Banks of the procedure set forth in the following paragraphs with respect to the purchase by the War Department of the guaranteed portion of guaranteed loans.

2. Upon receipt of written demand by a financing institution that the War Department purchase the guaranteed portion of a guaranteed loan, pursuant to section 1 and any other applicable sections of the guarantee agreement, it is requested that the Federal Reserve Bank prepare a statement setting forth the following:

- (a) Name and address of borrower.
- (b) Number of guarantee agreement.
- (c) Maximum amount of loan specified in guarantee agreement.
- (d) Percent guaranteed.
- (e) Maturity.
- (f) Interest rate.
- (g) Guarantee fee.
- (h) That written demand for purchase was received from (insert name and address of financing institution) on (insert date).
- (i) Amount of loan outstanding on date of receipt of demand for purchase.

December 10, 1942

(j) Computation of amount to be paid to financing institution:

- (1) Guaranteed portion of out-standing loan \$ _____
- (2) Accrued interest to (tenth day following receipt of written demand, except if tenth day is not a business day, then to the next succeeding business day) \$ _____
- (3) Total (represents funds to be made available to Federal Reserve Bank) \$ _____
- (4) Accrued guarantee fee to (same date as (2) above: to be deposited by Federal Reserve Bank with Treasurer of the United States in usual manner) \$ _____
- (5) Amount to be paid to financing institution \$ _____

- (k) Whether or not to the best of its knowledge and belief there has been any violation of the guarantee agreement or bad faith on the part of the financing institution.
- (l) Whether or not to the best of its knowledge and belief there has been any default by the borrower in complying with the terms of the loan.
- (m) A request that funds in the amount shown under (3) of subparagraph (j) above be placed at its disposal not later than one day prior to the date to which accrued interest and accrued guarantee fee have been computed under such subparagraph.
- (n) A certificate as follows, "I certify that to the best of the knowledge and belief of the Federal Reserve Bank of _____ the above bill is correct and just and that payment therefor has not been received."

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As soon as the above data has been prepared by the Federal Reserve Bank it should be transmitted by wire to the War Department through the Board of Governors. At the same time three copies of the above statement executed by an authorized officer of the Federal Reserve Bank and three copies of the written demand received from the financing institution bearing the following, "I hereby certify that the foregoing is a true and correct copy of a letter received by the Federal Reserve Bank of _____, on (insert date)" and signed by an authorized officer of said Bank, should be forwarded by mail to the War Department through the Board of Governors.

3. Funds will be made available to the Federal Reserve Bank through a wire from the Treasurer of the United States authorizing the Bank to charge the Treasurer's account for the specified amount. In order to identify the payment the wire will state the name of the financing institution, guarantee agreement number and date of the Federal Reserve Bank's statement.

4. A copy of the voucher (Form No. 1034) relating to each purchase will be forwarded to the Federal Reserve Bank by the Finance Office, United States Army, Washington, D. C. Each voucher will be stamped as paid and will show the Disbursing Office Voucher Number.

5. In each case at the time of making payment the Federal Reserve Bank should notify the financing institution in writing that such payment does not constitute a waiver of the rights of the War Department under section 12 of the guarantee agreement. One copy of the notification should be forwarded to the War Department.

6. The Federal Reserve Bank should notify the War Department through the Board of Governors when payment has been made to the financing institution. Such notification should set forth the name of the borrower, number of guarantee agreement, amount paid, date of payment, and name of financing institution.

7. Pursuant to section 2 of the guarantee agreement the financing institution will endorse the obligation and assign the collateral to the Federal Reserve Bank and give the notification required by such section. The Federal Reserve Bank will deliver a certificate to the financing institution evidencing its interest, if any, in the loan. A standard form of certificate to be used by all Federal Reserve Banks is attached herewith. Except in special cases, where the War Department will advise the Federal Reserve Bank, it is contemplated that the financing institution will continue to hold the obligation and collateral as agent of and for the account of the War Department to the extent of its interest.

8. Repayments on account of principal (including accrued interest purchased) of loans of which the guaranteed portion has been purchased by the War Department should be deposited by the Federal

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Reserve Bank to the credit of the Treasurer of the United States. Advice with respect to such credits should be made on Form 6599. One copy should be forwarded to Lt. Colonel Carl Witcher, Disbursing Officer, Finance Office, United States Army, 801 Channing Place, N.E., Washington, D. C., and two copies to the War Department (Advance Payment and Loan Branch, Fiscal Division, Services of Supply) through the Board of Governors. The advice should be noted on the reverse side that the deposit represents a repayment of funds advanced for the purchase of the guaranteed portion of a guaranteed loan and set forth the name of the borrower, date of purchase and Disbursing Office Voucher Number,

9. Interest accrued subsequent to the date of purchase and paid to Federal Reserve Banks should be handled in the same manner as guarantee fees. Advice with respect to such procedure is contained in a letter dated May 8, 1942 from the Director of the Fiscal Division to the Board of Governors.

10. The administration of loans subsequent to purchase of the guaranteed portion will be handled by the financing institution owning the unguaranteed portion, subject to the supervision of the Federal Reserve Bank as agent of the War Department. At the time of making payment to the financing institution or within a reasonable period thereafter, it is requested that the Federal Reserve Bank make available to the War Department a summary of all recent information within its knowledge relating to the financial condition of the borrower and the progress of the loan, which it has received from the financing institution in accordance with the provisions of section 8 of the guarantee agreement or otherwise. In the case of loans in default or loans on which default is threatened, the War Department should also be informed as to the steps proposed to be taken in connection with the liquidation of the loan and the subsequent progress of such steps. Special instructions may be issued by the War Department in certain cases, including 100% guaranteed loans purchased and loans purchased pursuant to section 7 of the guarantee agreement.

War Department of the United States

By: (Signed) John C. Mechem

John C. Mechem
Colonel, Signal Corps
Chief, Advance Payment and Loan
Branch
Fiscal Division

PARTICIPATION CERTIFICATE PURSUANT TO GUARANTEE AGREEMENT

Pursuant to section _____ of a certain guarantee agreement
No. _____, dated _____, 194____, between _____

(Name and address of Financing Institution)

(hereinafter called "Financing Institution") and the War Department
of the United States (hereinafter called the "Guarantor"), the Federal
Reserve Bank of _____ (hereinafter called "Reserve
Bank"), as fiscal agent of the United States, has been notified by
the Financing Institution that it has endorsed to the Reserve Bank
the following described obligation or obligations of _____

(Name and address of Borrower)

that it has assigned the collateral therefor to the Reserve Bank, and
that it holds said obligation or obligations and collateral therefor,
in accordance with said section _____ of said guarantee agreement:

<u>Date</u>	<u>Principal Amount</u>		<u>Interest Rate</u>	<u>Maturity</u>
	<u>Original</u>	<u>Unpaid</u>		

Pursuant to said section _____ of said guarantee agreement
and subject to the terms and conditions of such agreement, the under-
signed hereby certifies that the Financing Institution is the owner
of an undivided _____ per cent (____%) interest in the
above described obligation or obligations.

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Nothing hereir contained shall constitute a representation or warranty on the part of the Guarantor or the Reserve Bank as to the genuineness or validity of the above described obligation or obligations or as to the amount of principal or the amount of accrued interest outstanding and unpaid at any time thereon.

The rights represented by this certificate are non-transferable, except by operation of law or with the prior written consent of the Guarantor. In the event of any such transfer, this certificate shall be surrendered to the Reserve Bank for cancellation, and a new certificate with appropriate changes therein shall be issued by the Reserve Bank to such transferee. Unless and until this certificate has been cancelled and superseded by such new certificate, the Guarantor and the Reserve Bank may treat the Financing Institution as above named for all purposes as the sole owner of the rights represented hereby.

IN WITNESS WHEREOF, the Guarantor has caused this certificate to be signed by its duly authorized agent this _____ day of _____, 194____.

THE WAR DEPARTMENT OF THE UNITED STATES

By Federal Reserve Bank of _____
As Fiscal Agent of the United States

By _____
(Title)