BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-522

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 1, 1942

Dear Sir:

In the Board's letter of December 10, 1941 (S-403), the request was made that aggregate par values of Government securities as reported in the new left-hand column opposite item 1 in Schedule B be included in the preliminary summaries of asset items submitted within three weeks after calls are made.

Due to numerous apparent errors made by member banks in showing par values of Government securities on the December 31, 1941, reports of condition, you were notified by wire on January 14 that the information requested in the last paragraph of the letter need not be reported at all for national banks and might be reported for State bank members following verification.

Further consideration has been given this matter, and unless and until otherwise advised it will be unnecessary for you to furnish the figures showing par values of Government securities requested in the last paragraph of the Board's letter of December 10.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-523

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 1, 1942

Dear Sir:

The War Production Board and the Office of Price Administration have indicated a need for monthly information regarding department store stocks by departments. To provide such information, the Board has been asked to change the present reporting system from a quarterly to a monthly basis. We should like to aid these agencies in obtaining the desired information. It is contemplated that the collection of monthly data would begin with sales during June and stocks as of June 30. Instructions relative to the collection of monthly data and the transmittal of reports to the Board are attached.

Members of the Board's Division of Research and Statistics have met with representatives of the interested war agencies and have discussed with them the need for such statistics, their use, and the best methods of obtaining them. These agencies have the authority, as a matter of law, to require such reports as they may need in the performance of their duties. They agree, however, with our view that it is preferable to make use of the arrangements already established by the Reserve Banks for collecting these data and believe that information thus obtained will adequately serve their present purposes. Collection of the data through the Reserve System would afford the reporting stores an opportunity to continue making their reports on a voluntary basis and through the familiar channels of an agency that has had long experience with the problems of gathering and interpreting this kind of information. All leading department stores should report these data and it is believed that if this situation is properly understood full cooperation will be obtained.

As in the past, it is contemplated that the information will be made available outside the System only in such form as will not disclose the figures for individual stores, and the System will not be called upon to engage in any policing activities on the basis of the department store inventory reports. The purpose of the monthly figures is to provide responsible war agencies--particularly those concerned with civilian supply and price controls--with more current and detailed

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

information for use in the formulation and administration of policies for which those agencies will be fully responsible. If, in the future, the need for individual store reports arises, the entire matter will be reconsidered, particularly the question of Federal Reserve participation in such a collection system.

In view of personnel losses and the increase in statistical work at the Reserve Banks because of war conditions, it may well be that clerical and perhaps other additions to the Banks' statistical staffs will be necessary. Inasmuch as this and other recently inaugurated projects seem essential at this time, provision should be made to insure that they are carried out as promptly and as efficiently as possible. If increases in the budget for your statistical and analytical department are necessary, we shall be glad to consider them as soon as they are submitted.

Future correspondence relating to this inquiry should be addressed to the Division of Research and Statistics.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-523-a

DEPARTMENT STORE SALES AND STOCKS, BY DEPARTMENTS

Instructions for Collection of Monthly Data

The War Production Board and the Office of Price Administration have decided that for their work they will need to have figures monthly that show both changes from a year ago and changes from the previous month. It seems to us that the most practicable way to meet these requirements is to collect reports on an identical store basis rather than getting in as many reports as possible each time as has been done in the past. The war agencies have agreed to accept data for a smaller number of stores if necessary in order to obtain the comparable month-to-month figures that they need. They would, however, like to have the sample made as comprehensive as possible and feel that all leading department stores should cooperate.

Collection of reports on this basis should be begun to cover sales during June and stocks at the end of June. In regard to the data to be requested from stores, we believe that it would be adequate to request only data for the current month and the corresponding month a year ago, as after June figures for the previous month can presumably be obtained from records previously sent in.

The war agencies have agreed not to ask for May data but they would like to receive April figures comparable to those reported for June. If, therefore, your report for June does not include all stores that reported in April, will you please send us also a retabulation of April figures covering only those stores included in the June report. Or, if additional stores of importance can supply both April and June figures, we should like an April report including them.

Concerning the manner in which data should be reported to us, Form F.R. 576, that we sent you prior to the April 30 survey, can still be used. It is imperative, however, that the same stores be included each month.

Concerning the number of departments to be covered, some Banks have in the past been using the shorter form of report used for reporting departmental sales only. This was satisfactory to the war agencies when the quarterly survey was first begun but it now appears that they would like to have the longer form used in each district with figures shown for as many individual departments as is possible, even though the sample for some departments may appear to be quite limited. In all totals and subtotals, however, please include figures for additional stores that are not able to provide departmental reports in complete detail so that we can continue publication of a monthly report at least as detailed as that now compiled.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

With the inauguration of this new report, there will, of course, be no need for continuation of the separate report on sales by departments sent to us formerly as we shall begin publication of a new report based on the data received covering both sales and stocks.

Our letter of July 1, which is attached, may be taken as a guide in informing the stores in your district of the need for the above changes in the reports that are obtained from them.

July 1, 1942.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-524

TELEGRAM

July 2, 1942

(Addressed to the Presidents of all Federal Reserve Banks)

Item 5 in Group A, section 13(a) of Regulation W includes batteries and accessories for trucks and busses.

(Signed) L. P. Bethea

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-525

TELEGRAM

July 3, 1942

(Addressed to the Presidents of all Federal Reserve Banks)

Boy Scouts of America and Y.M.C.A. are exempted under section 8(1) of Regulation W.

(Signed) L. P. Bethea

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-526

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 3, 1942

Dear Sir:

Reference is made to the Board's letters of April 17, 1942 (R-975) and May 2, 1942 (R-981). There are enclosed copies of Forms F. R. 577, 577a, and 579, which have been revised in the light of suggestions developed at recent conferences held between members of the Board's staff and representatives of the War and Navy Departments and the Maritime Commission. A supply of each form is being forwarded under separate cover.

Forms F. R. 577 (Maritime Commission) and F. R. 577a (Army and Navy Departments)

1. Guarantee numbers on Form F. R. 577 or 577a reports should be the same as those assigned to the corresponding guarantees. Your Bank should assign the guarantee numbers to guarantees executed on behalf of the War Department and the Maritime Commission. The Navy Department will assign guarantee numbers when issuing authorizations for guarantees. If numbers heretofore used on Form F. R. 577 reports do not conform to the above-described procedure, please submit to the Board in duplicate a separate list for each agency showing the name of borrower, serial number on Form F. R. 577 as submitted, and the number assigned to the corresponding guarantee. The numbers of the guarantees will then be inserted by us on the corresponding reports on Form F. R. 577.

2. A report on Form F. R. 577 or 577a should be submitted for each loan made by your Bank under Section 13b of the Federal Reserve Act that is guaranteed by the War Department, Navy Department, or the Maritime Commission. Only one report need be made for each guarantee even though the loan is not to be advanced in full at one time.

3. Branch of service chiefly concerned. This item need be filled in only on reports of loans guaranteed by the War Department and should show the branch of the service, such as

FOR VICTORY BUY UNITED STATES WAR BONDS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Ordnance, Chemical Warfare, etc. for which, either as contractor or subcontractor, the contractor has the greatest dollar volume of contracts. If the Bank has difficulty in obtaining such information, it will be obtained for the Bank by the liaison officer.

4. Amount of loan. The amount of the loan should be reported as the maximum amount of credit that under the guarantee agreement may be outstanding at any one time.

5. Final maturity of loan. In case the final maturity of the loan is indefinite because repayments thereof are to be made out of payments to the borrower on the contract, a statement to that effect should be substituted for final maturity date.

6. Commitment fee, if any. This item on reports of loans guaranteed by the War Department or Navy Department (Form 577a) should show what commitment fee, if any, is charged the borrower by the financing institution.

Form F. R. 579

1. Separate reports should be submitted for War Department, Navy Department, and Maritime Commission guarantees and should include loans outstanding at the end of the preceding month (column 6) even though no amount is outstanding at the end of the report month (column 7).

2. Column 4. The amount in column 4 should be the amount of credit in use by borrower on date of report plus any additional amount then available to borrower under the guarantee agreement.

3. Columns 5 and 8. The amounts to be entered in columns 5 and 8 should be derived by multiplying the amounts in columns 4 and 7 by the guarantee percentage (column 3) stated in the guarantee agreement or by such percentage as modified by action taken under Section 5 thereof.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures 3

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-527

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 6, 1942

Dear Sir:

This refers to the Board's letter of May 28, 1942 (S-496) with regard to the program for enforcement of Regulation W. In this connection, the Board has been advised by the Federal Deposit Insurance Corporation and the Comptroller under dates of June 29 and 30, 1942, respectively, that the two agencies will cooperate in the enforcement program along the lines suggested in the Board's letters to these two agencies dated June 12, 1942, of which copies are enclosed.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosures 2

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-527-a

June 12, 1942

Honorable Leo T. Crowley, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C.

Attention Mr. Francis C. Brown

Dear Mr. Crowley:

The Board has recently adopted a comprehensive program for the enforcement of Regulation W which it issued pursuant to the authority contained in the Executive Order issued by the President on August 9, 1941 (Federal Register, August 13, 1941, page 4035). For your information in this connection, there is enclosed a copy of a letter dated May 28, 1942 which the Board has forwarded to the Presidents of all the Federal Reserve Banks, together with an outline of the enforcement program. In view of the interest of the Department of Justice in matters of this kind, this program has been cleared by the Board with that Department. In this connection, there is enclosed a copy of a letter the Board has received from the Department of Justice, together with a copy of a circular which that Department has sent to all of its United States Attorneys.

In order to avoid duplication of steps to discover violations of the regulation, the Board would like to have the cooperation of your Corporation with respect to any violations which may occur in nonmember insured banks and Federal Credit Unions. Specifically, we would like to have the cooperation of your Corporation along the following lines:

1. Take such steps as you deem appropriate in the examination of such institutions to determine whether violations of Regulation W exist;

2. If violations are discovered which in the opinion of representatives of your Corporation are inadvertent, take steps to obtain correction of the violations along the lines which it is contemplated will be taken by the Federal Reserve Banks in similar circumstances under section IIA of the enclosed outline of enforcement program; and

3. If violations are discovered which in the opinion of representatives of your Corporation are apparently willful and steps should be taken to determine whether

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

penalties should be prescribed, report the facts in the case to the Federal Reserve Bank of the district in which the apparently willful violation occurs.

In carrying out the above program, we would like to have representatives of your Corporation and appropriate representatives at the various Federal Reserve Banks maintain close informal contacts in order that the Federal Reserve Bank representatives may be of all possible assistance to you in your cooperation with us in this matter.

For your information, the Comptroller of the Currency has been requested to cooperate with the Board in the enforcement of Regulation W in so far as national banks and Credit Unions subject to his supervision are concerned. We understand informally that the Comptroller's cooperation will be along the lines of the above and expect to receive formal advice to that effect from the Comptroller.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Enclosures

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-496

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 28, 1942

Dear Sir:

Under date of October 10, 1941 (S-368), the Board wrote you with regard to obtaining corrections of apparent violations of Regulation W. It was assumed that most violations were the result of inadvertence or misunderstanding as to the meaning of the provisions of the regulation.

Since that time many Registrants have had an opportunity to familiarize themselves with the regulation and there may be instances where violations are willful rather than the result of inadvertence or ignorance. The Board feels that it has a responsibility to provide such a program of enforcement as will bring about general compliance with the requirements of the regulation and in some degree prevent willful violations. To this end, the Board has approved a program of enforcement, a copy of an outline of which is enclosed. Certain parts of the program call for action by the various Federal Reserve Banks, and it is requested that your Bank proceed in accordance with this program.

After consultation with representatives of the Department of Justice it has been decided that, for the present at least and in the absence of exceptional circumstances, violations will not be reported to the Department of Justice in the first instance. However, in cases where the circumstances warrant, proceedings will be instituted, as set forth in the outline, to determine whether or not the Registrant's license should be suspended. The Board may wish to bring some of the cases in the latter category to the attention of the Department of Justice for possible prosecution by that Department. At the present time, however, it is desirable that every effort be made to secure compliance on the part of persons having obligations under the regulation, and it is contemplated that criminal action will be taken only in cases involving willful and aggravated violations.

In connection with subdivision II(B) of the enclosed program relating to proceedings for suspension of license in the case of willful violations, it is contemplated, of course, that if any case should

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

be discovered where the failure of a person subject to Regulation W to comply with the registration requirements of the regulation is apparently willful, you will make a full report of the facts in such case to the Board in order that it may bring the case to the attention of the Department of Justice.

With respect to subdivision I(A)(3) of the enclosed program relating to solicitation of the cooperation of local supervisory agencies, it is suggested that your Bank not take steps to work out a program with such agencies until the Board has reached agreement with the Federal Deposit Insurance Corporation, the Comptroller of the Currency, etc., with respect to their cooperation as mentioned under subdivision I(A)(2). In this connection, it may be mentioned that it is contemplated that in our contact with the National Association of Supervisors of State Banks we will solicit their cooperation at this time only as to banks. However, it is believed that in a number of States the bank supervisory agency also supervises and examines other classes of lenders subject to Regulation W. We will advise you as soon as practicable as to the agreements we have reached with the Federal Deposit Insurance Corporation, the Comptroller of the Currency, etc., and in the meantime you may wish to contact the bank supervisory agencies and any other similar agencies in your district to determine what lenders subject to Regulation W other than banks come under their jurisdiction.

The Board desires to emphasize that the enclosed program of enforcement is not intended to diminish in any way the educational activities of your Bank with regard to the requirements of Regulation W through trade associations, Better Business Bureaus, the press, by furnishing speakers to interested groups, or by any other appropriate means.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

OUTLINE OF ENFORCEMENT PROGRAM UNDER REGULATION W

I. Detection of Violations

A. Lenders:

1. It shall be the primary responsibility of the Federal Reserve Banks to detect violations by State member banks through the usual process of examination of such banks and through spot checks to detect violations by other lenders not periodically examined by recognized State or Federal supervisory agencies. Such spot-checking shall be conducted as outlined under I-B below.

2. The Board will undertake to obtain the cooperation of supervisory agencies having authority of national scope in detecting violations by institutions under their examination and supervision, such agencies including--

   a. Federal Deposit Insurance Corporation

   b. Comptroller of the Currency

   c. National Housing Agency

   d. Farm Credit Administration

   The Board will also undertake to obtain the cooperation of the National Association of Supervisors of State Banks.

   Any such cooperation will be solicited along the lines of that which has been obtained with respect to violations of the Board's Regulation U, with such modifications of procedure as may be appropriate to conform to this program.

3. The Federal Reserve Banks will solicit the cooperation of supervisory agencies having authority of local scope in detecting violations by institutions under their examination and supervision. Each Federal Reserve Bank, with the assistance of its counsel, will ascertain the local supervisory agencies regularly examining and supervising those lenders subject to Regulation W.

B. Vendors:

1. The various Federal Reserve Banks will for the present spot check extensions of credit by vendors, each Federal

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Reserve Bank exercising its own discretion as to the number of checkers or investigators it will engage, their qualifications and training, the size of sample of vendors to be investigated, and the methods and scope of investigation. The Board suggests, however, that each Federal Reserve Bank make a real effort to spot check a representative number of vendors that may be subject to Regulation W. Any such investigator should be furnished with appropriate credentials by the Federal Reserve Bank he represents. The investigator's report should follow such form as is suggested by the following outline:

a. Name of the Federal Reserve Bank.

b. Name, address, and character of the business investigated and whether registered.

c. Date of investigation.

d. Name of investigator.

e. Scope of investigation (including procedure in spot-checking, number and types of transactions reviewed and for what calendar period, whether there was a review of Statements of Borrower, Statements of Transaction, and Statements of Necessity, etc.).

f. List of violations disclosed and as to each whether in the investigator's opinion it was apparently willful or inadvertent.

g. A complete detailed statement of facts of each violation.

h. Corrections, if any, obtained as a result of the investigation.

i. The attitude of the business executives toward the regulation in general and toward the alleged violation in particular.

j. Other comments of the investigator.

II. Treatment of Violations after Detection

Consideration will be given in this section only to violations discovered by the Federal Reserve Banks. In negotiations with

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

other supervisory agencies, an attempt will be made to have their treatment of violations conform generally to the treatment of violations discovered by the Federal Reserve Banks.

A. Inadvertent violations:

1. If in the opinion of the Federal Reserve Bank the violation was inadvertent, the Reserve Bank will--

   a. Take appropriate steps to bring about, if practicable under all the circumstances, a correction of the contract in accordance with the regulation;

   b. If the circumstances warrant, make further investigations from time to time to determine whether other violations occur; and

   c. Furnish the Board, when requested to do so, with reports showing inadvertent violations and the corrections obtained.

B. Willful violations:

1. If, in the opinion of the Federal Reserve Bank, a violation was apparently willful and proceedings should be instituted to determine whether the Registrant's license should be suspended, the Federal Reserve Bank will--

   a. Prepare a full report of the facts disclosed by its investigation;

   b. Forward one copy of such report to the Board with its recommendations; and

   c. Take no further action against the apparent violator until directed to do so by the Board.

2. If the circumstances warrant, the Board of Governors will direct that a hearing be held at the Federal Reserve Bank to determine whether or not the Registrant's license should be suspended. In connection with any such direction, the Federal Reserve Bank will be furnished with full instructions as to the conduct of the hearing. In general, it is contemplated that the hearing will be conducted by a trial examiner selected for the purpose but independent of the Federal Reserve Bank and that the evidence of the violation will be presented by counsel and other representatives of the Federal Reserve Bank.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-527-b

DEPARTMENT OF JUSTICE
Washington, D. C.

May 27, 1942

Mr. Chester Morrill,
Secretary, Board of Governors,
Federal Reserve System,
Washington, D. C.

Dear Mr. Morrill:

This will acknowledge your letter dated May 22, 1942, with the enclosed documents, in which you ask to be advised whether this Department has any objection to the proposed outline of enforcement of Regulation W, relating to Consumer Credit, as set forth therein.

The Criminal Division is in accord with the proposals set forth in your letter, and assures you of its cooperation in your program to secure compliance from persons having obligations under the Regulation whenever possible without the institution of criminal proceedings.

A circular letter is being sent to all United States Attorneys requesting that no proceedings should be instituted in cases involving violations of Regulation W without prior authority from the Department. In this connection, it is requested that there be furnished to the Criminal Division four hundred copies of Regulation W, as revised effective May 6, 1942, for distribution to the United States Attorneys and a similar number of the Federal Reserve circular outlining the Board's proposed policy with reference to the administration and enforcement of the Regulation.

Respectfully,

For the Attorney General,

(Signed) Wendell Berge

WENDELL BERGE,
Assistant Attorney General.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-527-c

DEPARTMENT OF JUSTICE
Washington, D. C.

May 29, 1942

CIRCULAR NO. 3567
Supplement No. 1

TO ALL UNITED STATES ATTORNEYS:

Subject: Violations of the Regulations pertaining to Consumer Credit. Section 95(a), Title 12, United States Code (Section 5(b) Act of October 6, 1917).

There are transmitted herewith copies of Regulation W of the Board of Governors of the Federal Reserve System, as revised effective May 6, 1942, entitled "Consumer Credit" and promulgated in accordance with Executive Order No. 8843 dated August 13, 1941 (Fed. Reg. August 13, 1941 p. 4035).

In view of the policy of the Federal Reserve Board as stated in its "Outline of Enforcement under Regulation W" a copy of which is enclosed herewith, it is requested that any apparent violations of Regulation W which come to your attention be submitted to the Federal Reserve Bank or branch in the district in which the apparent violation occurs for disposition in accordance with the above program, and that no prosecutions for violations of these Regulations be instituted without the prior authority of the Department.

FRANCIS BIDDLE
Attorney General

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-527-d

June 12, 1942

Honorable Preston Delano,
Comptroller of the Currency,
Washington, D. C.

Attention Mr. J. Louis Robertson

Dear Mr. Delano:

The Board has recently adopted a comprehensive program for the enforcement of Regulation W which it issued pursuant to the authority contained in the Executive Order issued by the President on August 9, 1941 (Federal Register, August 13, 1941, page 4035). For your information in this connection, there is enclosed a copy of a letter dated May 28, 1942 which the Board has forwarded to the Presidents of all the Federal Reserve Banks, together with an outline of the enforcement program. In view of the interest of the Department of Justice in matters of this kind, this program has been cleared by the Board with that Department. In this connection, there is enclosed a copy of a letter the Board has received from the Department of Justice, together with a copy of a circular which that Department has sent to all of its United States Attorneys.

In order to avoid duplication of steps to discover violations of the regulation, the Board would like to have the cooperation of your office with respect to any violations which may occur in national banks and Credit Unions subject to your supervision. Specifically, we would like to have the cooperation of your office along the following lines:

1. Take such steps as you deem appropriate in the examination of such institutions to determine whether violations of Regulation W exist;

2. If violations are discovered which in the opinion of representatives of your office are inadvertent, take steps to obtain correction of the violations along the lines which it is contemplated will be taken by the Federal Reserve Banks in similar circumstances under section IIA of the enclosed outline of enforcement program; and

3. If violations are discovered which in the opinion of representatives of your office are apparently willful

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

and steps should be taken to determine whether penalties should be prescribed, report the facts in the case to the Federal Reserve Bank of the district in which the apparently willful violation occurs.

In carrying out the above program, we would like to have representatives of your office and appropriate representatives at the various Federal Reserve Banks maintain close informal contacts in order that the Federal Reserve Bank representatives may be of all possible assistance to you in your cooperation with us in this matter.

For your information, the Federal Deposit Insurance Corporation has been requested to cooperate with the Board in the enforcement of Regulation W in so far as nonmember insured banks and Federal Credit Unions are concerned. We understand informally that the Corporation's cooperation will be along the lines of the above and expect to receive formal advice to that effect from the Corporation.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Enclosures

(NOTE: The enclosures with this letter were identical to those with the letter to the Federal Deposit Insurance Corporation.)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-528

TELEGRAM

July 6, 1942

(Addressed to the Presidents of all Federal Reserve Banks)

Board has been asked whether under Regulation W a Registrant may make an instalment loan with a maturity of twelve months to retire a charge account arising in whole or in part from the sale of a listed article, if the Registrant accepts a Statement of Necessity in accordance with the provisions of section 10(d). The answer to this question is that the loan may have a maximum maturity of twelve months from the date of the loan whether or not the charge account was in default under the provisions of section 5(c).

Board has also received an inquiry as to the maximum maturity of a single-payment loan to retire a charge account. Such a loan must of course have a maturity not in excess of 90 days, but, if a Statement of Necessity is taken from the obligor when the loan matures, the Registrant may renew the entire amount on an instalment basis under section 7(c)(1) for as long as twelve months from the date of renewal, or the Registrant may make extensions in the manner provided in section 7(c)(2) if the maturity of the last single-payment obligation is not later than twelve months from the date of the first one. See footnote 5.

(Signed) L. P. Bethea

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-529

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 7, 1942

Dear Sir:

There is enclosed a copy of a letter dated June 17, 1942, to a Federal Reserve Bank regarding the applicability of Regulation W to the resale of an automobile by a financing institution which had a lien upon the automobile securing a loan. The letter states that the automobile may not be resold to a third person on terms which do not conform to the requirements of the Regulation.

In this connection, however, your attention is invited to a difference in wording between Sections 10(a)(1) and 10(a)(2). The latter exempts action taken "for the Registrant's own protection", but the former does not contain this limitation. Accordingly, under Section 10(a)(1), the contract with the obligor could be revised on any terms which the Registrant deemed necessary to protect the interests of the obligor.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-529-a

June 17, 1942

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

In your letter of June 6, 1942, you asked whether a credit union, to which a member, who has been inducted into the armed forces, owes a $200 balance on an automobile loan made prior to his induction, may sell the automobile for such member for $600 and finance the entire purchase price for the new purchaser without regard to the requirements of Regulation W.

It is the Board's view that section 10(a)(1) would not permit the unregulated financing of the automobile for the new purchaser, since this clearly would be action by the Registrant "with respect to" the obligation of the new purchaser, rather than the obligation of the credit union member. On several occasions the Board has stated that an original extension of credit in similar circumstances to a subsequent purchaser would not be exempted from the regulation by section 10(a)(2). Under either sections 10(a)(1) or 10(a)(2), the fact that the resale to a new purchaser follows what you refer to as a bona fide collection effort, rather than an ordinary "repossession" of the automobile would not, in the usual case, lead to a different result. In addition, it should be noted that the opposite result would lead to an anomalous competitive situation between dealers, finance companies, and other financing institutions.

In this connection, it should be noted that the last paragraph of W-72 is merely intended to call attention to sections 10(a)(1) and 10(a)(2) rather than to apply them to the transactions described in the first three paragraphs of that interpretation.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-530

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 7, 1942

Dear Sir:

There is enclosed, for your information, a copy of a letter addressed to a Federal Reserve Bank on July 6, 1942, with reference to Regulation W.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-530-a

July 6, 1942

Mr. _____, Assistant Cashier,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Your letter of May 23 contains several inquiries regarding Regulation W. Those which have not already been answered are discussed below.

One of your questions relates to a "fur coat sold in June with the understanding that the coat would be delivered in November" and would be billed to the customer at the time of delivery. During the interim the item is to be carried in a so-called memorandum account.

The question is whether this amounts to an agreement to defer payment for a longer period than permitted by the Regulation, but the answer depends upon whether the coat was "sold" in June or is to be sold in November. It is not possible to give an answer which would be applicable to all cases because the facts will differ, but in some cases, as a legal matter, the coat would not be "sold" until November and the transaction in June would merely be a contract to make a sale at a future date. In that event, the transaction would not violate Regulation W since the article would be charged to the customer's account promptly at the time of the sale. On the other hand, if the coat is "sold" in June (so that title passes to the customer, and the Federal tax is due on the sale) an agreement to delay payment until November or later would violate the Regulation.

Of course, no matter when title passes to the customer, the Registrant may always take advantage of section 12(d) relating to "Layaway" Plans. Under the conditions therein described, he may treat the extension of credit as not having been made until the date of delivery.

You also inquire as to the sale of furniture which is made to order and the item is carried in a memorandum account until the article is ready for delivery, at which time the charge is made to the customer's regular charge account. You feel that such a transaction involves a bona fide delayed delivery and that the article need not be regarded as "sold" within the meaning of section 5(c) until the article is ready for delivery.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

It is not possible to sell something which is not yet in existence, and the transaction is, therefore, merely a contract to make a sale at a future date. Accordingly, the Board agrees with your conclusion.

For the same reason, the Board believes that the same result should follow even if the cost of the furniture is charged to the customer's regular charge account at the time the order is taken, since the difference is merely in the form of the bookkeeping entry. In such a case if the account is in default on the date when the furniture is ready for delivery, the seller could not make delivery unless the furniture were paid for in full on or before delivery, or unless the default were cured.

Your other inquiries relate to materials used in connection with repairs, improvements and alterations of residential property. In some cases a specific list of materials is decided upon, and these materials are delivered when called for over a period of time as the job progresses. In other cases, the exact requirements are not known and the materials are ordered and delivered as the job progresses.

The answers will depend upon the rights of the parties as fixed by their contracts. If the articles are sold to the contractor, the sales are exempt under section 8(f). See also W-43. On the other hand, if the sales are made directly to the property owner and not to the contractor, it is probable that there would be a series of sales which would take place on the several delivery dates.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-531

TELEGRAM

July 14, 1942

(Addressed to the Presidents of all Federal Reserve Banks)

The Board has recently considered several cases that relate to the differences between (1) "instalment sale" (which, by definition, relates only to listed articles), (2) instalment sale of an unlisted article or a service, and (3) "instalment loan".

When listed articles involved. - Sometimes the seller of a listed article does not take a note payable to himself, but instead, according to arrangements with a financial institution, takes a note payable to the financial institution. Such a transaction involving a listed article is an instalment sale whether the note is made payable to the seller or to a financial institution, since section 2(e) specifically states that, so long as the extension of credit is made "by any seller" of any listed article and "arises out of the sale of such listed article", the definition applies whether the seller provides for the credit "as principal, agent or broker". Such a transaction does not constitute an instalment loan and hence does not require a Statement of Borrower, since under section 2(h) an instalment loan includes only specified transactions "other than an instalment sale".

When unlisted article involved. - When such transactions involve an unlisted article or a service (including an insurance policy) instead of a listed article, the rule is somewhat different. If the seller takes a note payable to himself the transaction is exempt from the regulation as a sale of an unlisted article or a service, and the note may be purchased by a bank or other financial institution without regard to the requirements of the regulation. On the other hand, when the seller takes a note payable to a financial institution instead of to himself, the transaction (if for $1,500 or less) is subject to the regulation as an instalment loan and a Statement of the Borrower is required. The controlling factor in such cases involving an unlisted article or a service is whether the note is made payable to the seller, in which case the transaction is exempt, or is made payable to a financial institution, in which case the transaction is subject to the regulation as an instalment loan. Note, however, that the word "service" as used herein, does not include any service connected with the acquisition of a listed article.

The differences between the status of transactions involving listed articles and those involving unlisted articles and services flows from the fact that the definition of instalment sale in section 2(e) is

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

by its terms specifically confined to transactions involving listed articles. When an unlisted article or a service is involved and the note is made payable to a financial institution instead of to the seller, the transaction on its face is a loan by the financial institution and (if for $1,500 or less) is subject to the regulation as an instalment loan.

Statement of certain other interpretations. - This covers the questions considered in W-16, 119 and 124 and takes the place of those interpretations.

(Signed) Chester Morrill.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-532

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 15, 1942

Dear Sir:

The following is an excerpt from a letter recently written by a member of the Board to a Registrant regarding the enforcement of Regulation W. It is believed that this letter may be of some assistance to your Bank in dealing with similar problems:

"In referring to the spirit and intent of the Regulation I assume that both of us have in mind its broad objectives as they are set out in the President's Executive Order and as they have been expounded from time to time in various public statements and press releases. The last such statement is contained in the May issue of the Federal Reserve Bulletin, a copy of which is enclosed. I also enclose copy of a talk that I made only a few days ago to a convention of the National Retail Credit Association in New Orleans. I thought that you might be interested in my own ideas, based on many months study of the Regulation and of the demands present circumstances dictate to vendors, lenders, and consumers, as set out on page 8.

"Those of us working on Regulation W for the Board of Governors recognize that the accomplishments of the Regulation are, in no small measure, attributable to the cooperation that the Board has received generally from Registrants and to an eagerness of the great majority of them to do as much of the job as possible by self-imposed requirements. Along these lines banks are being urged by the Federal supervisory authorities to exert pressure to hasten the repayment of presently outstanding loans to individuals for nonproductive purposes. We expect full cooperation of the banks of this country with this program. Work is also being done in a preliminary way with the life insurance companies looking to a program that will reduce policy loans where possible. Innumerable groups of vendors and lenders and trade associations representing them have shown a commendable willingness to cooperate with us in every phase of the undertaking to carry out this part of the President's program.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

"As a result the Board has to date been able to avoid imposing some controls authorized by the Executive Order which otherwise might have been necessary. This is true with respect to the question of public solicitation despite the occurrence of isolated and sporadic practices which, if they should become general or should be persisted in by an uninformed minority, unwilling to cooperate, might compel action. So far, however, the necessity has not arisen, and we hope, of course, that it will not.

"This, I trust, will explain our interest in the subject of advertisements. At the same time, I am sure that upon consideration you will understand the Board declining to pass upon the specific advertising matter which you submit, both because the Regulation does not now prescribe rules upon the subject and also because, even if it did, we are not equipped to pass upon hypothetical cases or to offer to any Registrant judgment in advance as to the propriety of his or particularly a competitor's advertising. We have had innumerable requests that we express approval or disapproval of advertising done by your stores. We prefer to handle this matter direct with you, rather than by correspondence with your competitors. Speaking generally, I hope that Registrants will keep their advertising consistent with the Government's program as announced by the President in his Special Message to Congress on April 27 and radio address on the following day.

"Aside from Regulation W and in connection with your comment that such an advertisement would assist in stimulating the sale of Savings Bonds or Stamps, I enclose a copy of Treasury Department News Release #167 of May 12, 1942, dealing in part with the use of bonds or stamps as premiums, discounts or gifts in connection with the retail sale of merchandise.

"Referring to your question of whether opening a charge department would violate the intent of Regulation W, the question itself indicates your awareness of the fact that the letter of the Regulation does not prohibit such action. Nor do I know of any reasons why bona fide charge accounts should be singled out and prohibited. It goes without saying, however, that their use as a means to evade or avoid the Regulation is another matter. I can visualize circumstances that would raise a question as to a violation not only of the spirit but as well of the letter of the Regulation."

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL
FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-533

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 15, 1942

Dear Sir:

Enclosed for your information is a copy of a revised list showing in detail the automobile appraisal guides which are now designated by the Board for purposes of section 13(c) of Regulation W (formerly Part 3(b) of the Supplement to Regulation W).

This list differs in the following respects from the list that was sent you on March 21:

1. This list incorporates the designation of the N.A.D.A. Official Used Car Guide, District L Edition, for Nevada as to which you were notified by telegram on March 23, and the designation of the Blue Book National Used Car Market Report--Executive Edition, for certain additional territory as to which you were notified by letter on April 9.

2. The Official Blue Book New and Used Car Guide--B Edition, the Blue Book National Used Car Market Report--Executive Edition--"retail sales values" for Zone No. 3, and the Red Book National Used Car Market Report, have been designated for 10 counties in Southern Michigan which the Board had originally excluded from the territory for which these publications were designated.

3. The Market Record has discontinued publication.

4. The "Official Guide" published by Pacific Auto Guide, Inc., has been consolidated with the Kelley Blue Book, published by Kelley Kar Company.

5. The "Official Automobile Guide", Price Edition, published by Recording and Statistical Corporation, has been included among the designated publications, and has been designated for the territory indicated on the enclosed list.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

It is not believed necessary for the Reserve Banks to notify Registrants of these changes, except in answer to inquiries.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-533-a

July 15, 1942.

AUTOMOBILE APPRAISAL GUIDES DESIGNATED BY
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM FOR PURPOSES
OF SECTION 13(c) OF REGULATION W

(Designations limited to quotations for used cars of 1935 and later models)

Name of Guide and Publisher	Territory for which publication is designated
MARKET ANALYSIS REPORT, published by Used Car Statistical Bureau, Inc.	Connecticut Maine Massachusetts New Hampshire Rhode Island Vermont
AMERICAN AUTO APPRAISAL, published by Automobile Reference and Appraisal Bureau	Michigan - Southern Peninsula Ohio
OFFICIAL WISCONSIN AUTOMOBILE VALUATION GUIDE, published by National Used Car Market Report, Inc., for Wisconsin Automotive Trades Association	Wisconsin
NEBRASKA OFFICIAL USED CAR SURVEY, published by State of Nebraska, Motor Vehicle Dealers Administration	Nebraska
KELLEY BLUE BOOK, published by Kelley Kar Company	Arizona California Idaho Nevada Oregon Utah Washington
NORTHWEST USED CAR VALUES, published by Northwest Publishing Company	Idaho Oregon Washington
OFFICIAL AUTOMOBILE GUIDE, Price Edition, published by Recording & Statistical Corp.	Entire United States, except the States of Arizona, California, Idaho, Nevada, Oregon, Utah, and Washington.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Name of Guide and Publisher	Territory for which publication is designated
OFFICIAL BLUE BOOK NEW AND USED CAR GUIDE, published by National Used Car Market Report, Inc.	
A EDITION	Entire United States except the States of Arizona, California, Idaho, Nevada, Oregon, Utah, and Washington
B EDITION	Same as territory designated for A Edition
BLUE BOOK NATIONAL USED CAR MARKET REPORT -- EXECUTIVE EDITION, published by National Used Car Market Report, Inc.	
"Retail sales values" for Zone No. 1	Connecticut Delaware District of Columbia Maine Maryland Massachusetts New Hampshire New Jersey New York Pennsylvania Rhode Island Vermont Virginia
"Retail sales values" for Zone No. 2	Alabama Arkansas Georgia Louisiana Mississippi North Carolina South Carolina Tennessee

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Name of Guide and Publisher	Territory for which publication is designated
BLUE BOOK NATIONAL USED CAR MARKET REPORT -- EXECUTIVE EDITION (Continued)	
"Retail sales values" for Zone No. 3	Illinois Indiana Kentucky Michigan - Southern Peninsula Ohio West Virginia
"Retail sales values" for Zone No. 4	Florida Iowa Kansas Michigan - Northern Peninsula Minnesota (except the 15 counties for which "Retail sales values" for Zone No. 5 are designated) Missouri Nebraska Oklahoma Texas (except the 6 counties for which "Retail sales values" for Zone No. 5 are designated) Wisconsin
"Retail sales values" for Zone No. 5	Colorado Following 15 counties in Minnesota: Big Stone, Clay, Kittson, Lac qui Parle, Lincoln, Marshall, Norman, Pennington, Pipestone, Polk, Red Lake, Rock, Traverse, Wilkin, and Yellowmedicine Montana New Mexico North Dakota South Dakota Following 6 counties in Texas: Brewster, Culberson, El Paso, Hudspeth, Jeff Davis, Presidio Wyoming
"Retail sales values" for Zone No. 6	Arizona California Idaho Nevada Oregon Utah Washington

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Name of Guide and Publisher	Territory for which publication is designated
RED BOOK NATIONAL USED CAR MARKET REPORT, published by National Used Car Market Report, Inc.	Same as territory designated for Official Blue Book New and Used Car Guide, A Edition
N.A.D.A. OFFICIAL USED CAR GUIDE, published by National Automobile Dealers Association	
DISTRICT B EDITION	Connecticut Delaware District of Columbia Maine Maryland Massachusetts New Hampshire New Jersey New York Pennsylvania Rhode Island Vermont Virginia West Virginia - following 8 counties: Berkley, Grant, Hampshire, Hardy, Jefferson, Mineral, Morgan, Pendleton
DISTRICT EF EDITION	Alabama Arkansas Florida Georgia Louisiana Mississippi Tennessee Following county in Texas - Bowie
DISTRICT G EDITION	Illinois (except the southern section for which the J Edition is designated) Indiana Following 4 counties in Iowa: Clinton, Dubuque, Jackson, Scott Kentucky Michigan - Southern Peninsula (except the 10 counties for which the S.E. Michigan Edition is designated) North Carolina Ohio South Carolina West Virginia (except the 8 counties for which the District B Edition is designated)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Name of Guide and Publisher	Territory for which publication is designated
N.A.D.A. OFFICIAL USED CAR GUIDE (Continued)	
S.E. MICHIGAN EDITION	Following 10 counties in Michigan: Genesee, Jackson, Lapeer, Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw, Wayne
DISTRICT H EDITION	Michigan - Northern Peninsula Minnesota (except the 15 counties for which the District K Edition is designated) Wisconsin
DISTRICT J EDITION	Illinois - Section south of and including following counties: Adams, Cass, Champaign, DeWitt, Logan, Menard, Piatt, Schuyler, Vermilion Iowa (except the 4 counties for which the District G Edition is designated) Kansas Missouri Nebraska (except the 11 counties for which the District K Edition is designated) Oklahoma Following 5 counties in South Dakota: Bon Homme, Charles Mix, Clay, Union, Yankton Texas (except Bowie County and the 6 counties for which District K Edition is designated)
DISTRICT K EDITION	Colorado Following 15 counties in Minnesota: Big Stone, Clay, Kittson, Lac qui Parle, Lincoln, Marshall, Norman, Pennington, Pipestone, Polk, Red Lake, Rock, Traverse, Wilkin, Yellow-medicine Montana Following 11 counties in Nebraska: Banner, Box Butte, Cheyenne, Dawes, Deuel, Garden, Kimball, Morrill, Sheridan, Scotts Bluff, and Sioux

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Name of Guide and Publisher	Territory for which publication is designated
N.A.D.A. OFFICIAL USED CAR GUIDE (Continued)	
DISTRICT K EDITION (Continued)	New Mexico North Dakota South Dakota (except the 5 counties for which the District J Edition is designated) Following 6 counties in Texas: Brewster, Culberson, El Paso, Hudspeth, Jeff Davis, Presidio Utah Wyoming
DISTRICT L EDITION	Arizona Following 11 counties in California: Imperial, Inyo, Kern, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Luis Obispo, Santa Barbara, Ventura Nevada
DISTRICT O EDITION	California (except the 11 counties for which the District L Edition is designated) Idaho Oregon Washington

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-534

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 16, 1942

Dear Sir:

In order that we may have available information showing the aggregate amount of funds advanced by financing institutions on each loan guaranteed pursuant to the provisions of Executive Order No. 9112, it will be appreciated if you will furnish the Board in duplicate separate reports for the War Department, Navy Department, and Maritime Commission for the period March 26 to June 30, and for each month thereafter, showing the total amount advanced during the period on each guaranteed loan. The loan should be identified by the number assigned to the guarantee agreement applicable thereto.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-535

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 17, 1942

Dear Sir:

Enclosed is a copy of a letter addressed to the Federal Reserve Bank of Cleveland on July 16, 1942, concerning certain enforcement problems arising out of possible violations of Regulation W.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-535-a

July 16, 1942

Mr. R. B. Hays,
Vice President and Secretary,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Hays:

This is in response to your letter of June 24, 1942, concerning certain enforcement problems arising out of possible violations of Regulation W by a branch located in the Fifth Federal Reserve District which is managed by an officer located in the Fourth District, the parent company being registered in the First District.

The Board agrees that each Federal Reserve Bank, in connection with enforcement, should be responsible for all branches located in its district, even though the main office may be registered in another district. It also agrees that the enforcement activities of each Federal Reserve Bank should be confined to its district, and that each Federal Reserve Bank should make any investigations which may be necessary in its district. (See last paragraph of S-518).

Accordingly, it is suggested that you furnish the Federal Reserve Bank of Richmond with such information as you may have regarding the possible violation, in order that it may proceed with the necessary investigation. It might also be desirable for you to inform the Federal Reserve Bank of Boston in order that it may advise the parent company. However, if you should feel, in this case or in any other case involving more than one Federal Reserve District, that the Board could be of assistance in coordinating the efforts of the Federal Reserve Banks, the Board, of course, would be glad to lend its services.

The foregoing applies to routine cases concerning which there is no reason to think that the normal and usual informal contacts will not bring satisfactory results. If more drastic measures are necessary, or if it appears likely that they will be, the Board would like the case to be reported to it before any such action is taken. This suggestion is made in order to enable the Board to coordinate an enforcement program, and applies to any case, whether or not it involves action outside a particular district. In cases involving such action the Board will, of course, communicate with the proper Federal Reserve Bank through which appropriate action can be taken.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-536 43

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 22, 1942

Dear Sir:

In preparing Form F.R. 581, semi-monthly report of applications for loans and guarantees of loans under Executive Order No. 9112, it will be appreciated if the following procedure is observed:

Item 4 should represent the number and amount of applications received and acted upon or under consideration. Increases and decreases in amounts of applications made during the period before approval or disapproval thereof, should be included in items 2 and 3. If a change is made after approval but before a guarantee is issued, or if an executed guarantee is cancelled and reissued in an increased or reduced amount, please indicate the amount of the change against an appropriate caption, such as "Other increases (decreases) not covered by a new application", to be interlined under item 2 or 3. An application once withdrawn or rejected and later resubmitted should be reported as a new application.

Section 5a should cover applications that do not go to Washington. Section 5b should cover applications that go to Washington for approval. Inasmuch as the total of item 5 must agree with item 4, applications must be entered in the "number" columns only once when it is necessary to split the amount thereof, for example, applications for guarantees approved in part. In such cases the application should be entered in the "number" columns on the line on which the major portion of the loan is reported.

Item (1) under 5a and 5b should represent the total number and amount of loans approved on which guarantees have been executed, regardless of the status of disbursements on the loans by the financing institutions, and the total amount of disbursements on any direct loans to borrowers approved by the War Department, Navy Department, and Maritime Commission.

FOR VICTORY
BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The amounts reported in item (2) under 5a and 5b should represent the total of loans on which guarantees have been authorized, with and without conditions, but not executed, plus any direct loans to borrowers authorized, but not disbursed. Sub-item (a) under this caption should include applications withdrawn in part or entirely and also applications on which authorizations to issue guarantees have lapsed. Sub-item (b) under this caption should include applications for guarantees authorized and available to a financing institution, with or without conditions, but which have not yet been executed. Thus, applications for guarantees of loans originally reported opposite this item in the last two columns may be subsequently transferred to sub-item (a) "Withdrawn" upon lapsing of the authorization to guarantee or when the status of conditional approvals is such as to indicate nonacceptance by the applicant.

Item (3) under 5a and 5b is intended to cover applications for loans or guarantees rejected and the rejected portion of applications approved in part.

Item (4) under 5a should cover applications under consideration or being investigated which will be handled locally. Item (4) under 5b should consist of applications under consideration in Washington or under investigation or otherwise in process at the Federal Reserve Bank which will be submitted to Washington for approval.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-537

TELEGRAM

July 24, 1942

(Addressed to the Presidents of all Federal Reserve Banks)

The Board has received a number of inquiries regarding a type of transaction which is not specifically covered either by W-71 or by W-101 in which the seller takes back an article which is not defective but which for some reason is unsatisfactory to the customer, and allows the full original purchase price as a credit against the purchase price of a new article of the same type. The price of the new article is often higher than the price of the first article. The exchange usually occurs within a very short time after the original sale, and is made in good faith pursuant to an express or implied guarantee of satisfaction given in connection with the original sale.

The Board is of the opinion that, under these circumstances, if the seller allows the full original purchase price as a credit against the price of the new article, the transaction need not be treated as a trade-in (as described in W-71) and any payments made on account of the original sale may be credited against the down payment required on the new article.

Of course, if the price of the new article were in any manner inflated to take care of depreciation in the original article, the transaction would be an attempt to evade the down payment requirement and would not be permissible. Any long delay between the original sale and the date of the exchange might likewise lay the transaction open to suspicion as an attempt to evade.

(Signed) Chester Morrill

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-538

TELEGRAM

July 30, 1942.

(Addressed to the Presidents of all Federal Reserve Banks)

Weekly reports of number of applications for loans and guarantees on hand under Executive Order No. 9112 requested in Board's wire of May 2, 1942, S-468, may be discontinued.

(Signed) E. L. Smead

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-539

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 1, 1942

Dear Sir:

There is quoted below, for your information, a letter addressed to a Federal Reserve Bank today with reference to Regulation W:

"In your letter of June 22, 1942 (Inquiry No. 20), you asked for our views regarding the applicability of Regulation W to charges by hotels to the accounts of guests or tenants, including those arising from operations incidental to the primary purposes of hotels.

"In the usual cases, and for the purposes of the Regulation, it would not appear that hotels are 'engaged in' any of the businesses covered by section 3.

"The Board agrees with your view that a charge solely for room rent does not constitute a 'charge account' since the transaction involves the sale of a service rather than the sale of an 'article, whether listed or unlisted.' The same is true of charges for the sale of other services, e.g., barber, tailor, storage, etc., assuming that the value of any material involved would be insignificant in comparison with the total cost of the service.

"According to the facts disclosed in your letter, the incidental articles or services sold by hotels, or to be considered as sold by hotels although made available through concessionaires or independent contractors, and which may be charged to guests' hotel accounts ordinarily do not include listed articles. Accordingly, it is the Board's view that, unless it appears that a hotel is engaged in the business directly or indirectly of making charge sales of listed articles, charges to guests' hotel accounts for such incidental articles should not be considered as affected by the restrictions of the Regulation.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

"You indicate that a hotel may make a cash advance to a guest, pay on behalf of a guest for a C.O.D. delivery by a local merchant, or purchase theatre or railway accommodations for a guest, the amounts thereof being charged to the guest's account. However, it is doubtful whether hotels, as a practical matter, hold themselves ready to so accommodate all guests in this manner or to such an extent that the hotels should be considered as 'engaged in' the extension of the resulting credit as a business. It is the Board's view, therefore, that such casual or incidental operations, alone, do not constitute a business of the type covered by the Regulation."

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-540

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 6, 1942

Dear Sir:

For your information in case a similar question should arise in your district, there is enclosed a copy of a letter we have addressed to one of the Federal Reserve Banks with regard to the eligibility of credit unions for membership in the Federal Reserve System. If you should receive any indication in your district of an interest in or need for membership by credit unions in the Federal Reserve System, we shall be glad to have you advise us for our information.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-540-a

August 6, 1942

Mr. _____, Vice President,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. _____:

This refers to your letter of July 1, 1942, and its enclosures, relating to the question whether credit unions organized under the laws of the State of Minnesota are eligible for membership in the Federal Reserve System.

Since no credit union has applied for membership and the only inquiry on this subject which has been received in recent years was a very general one, the Board has not had occasion to rule upon the eligibility of such institutions. It is not clear that you have in mind a particular credit union which is definitely interested in membership and your Counsel is of the opinion that it would require an amendment to the State law to enable Minnesota credit unions to become members of the Federal Reserve System. In the circumstances, you will understand that we are merely making certain observations for your information and are not attempting to express a final conclusion.

It is understood that credit unions organized under the laws of the State of Minnesota are authorized to accept deposits (as well as payments on shares), and that at least some of them do so. Referring to this power to accept deposits, the power to make loans, and certain other powers, your Counsel expresses the view, with apparent justification, that such credit unions are incorporated banking institutions. On this basis, he concludes that they might be admitted to membership under the first paragraph of section 9 of the Federal Reserve Act, if the State law were amended to authorize them to purchase Federal Reserve Bank stock.

Your Counsel states that such credit unions have capital stock represented by shares issued to their members. However, such an institution has no fixed amount of capital stock, the amount being subject to daily fluctuations as members make payments into and withdrawals from their share accounts. It does not have any charter requirement that it maintain a stated minimum capital and withdrawals may be made in any amount at any time, subject only to the right to require notice. Obviously, the credit union capital stock is of a different character from the capital stock of national banks; and, considering the statutory provisions with respect to capital required for admission to membership, withdrawal of capital by member banks, determination of the amount of Federal Reserve Bank stock to be held

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

by member banks and other pertinent matters, it might be urged that the capital stock of such a credit union is not of the kind which it is contemplated that banks admitted to membership under the first paragraph of section 9 will have.

Generally speaking, credit unions are more comparable to mutual savings banks than to commercial banks with capital stock. On the other hand, they do have a type of capital stock which carries with it certain proprietary interests which differ from the rights attaching to deposits. Exhaustive consideration of the question whether they could be admitted as mutual savings banks probably is not worth while since it is doubtful whether they could meet the requirement contained in paragraph 15 of section 9 that, in order to be eligible, a mutual savings bank or similar institution must have surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the same place. We do not have information with respect to individual credit unions in Minnesota but a statement issued by the State Commissioner of Banks giving consolidated information for all such institutions as of December 31, 1941, appears to support this conclusion.

While provision has been made in paragraph 15 of section 9 for the admission of some banking institutions organized on a cooperative basis, there is no indication that in enacting these provisions Congress had credit unions in mind and, if it is desirable that such institutions be admitted to the Federal Reserve System, it would seem preferable that an amendment be added to the Federal Reserve Act specifically providing for their admission to membership which would conform more nearly to their organizational requirements than do the existing provisions.

As you know, the provision for admission to membership of mutual savings banks and other cooperative institutions was enacted in 1933 but up to this time there has been very little active interest by such institutions in becoming members of the Federal Reserve System. As stated above, the Board has received only one general inquiry with regard to eligibility of credit unions for membership in the System and it is not apparent at this time that there would be any substantial need for or interest in an amendment specifically making such institutions eligible for membership. If you have received any indication in your district of such an interest or need, we would like to be advised of it and if you have in mind a credit union which definitely desires to be a member we will be glad to consider any further presentation which you or your Counsel may wish to make with reference to it in the light of this letter.

Very truly yours,
(Signed) L. P. Bethea
L. P. Bethea,
Assistant Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-541

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1942

Dear Sir:

For your information, the Board has made the following changes in its Legal Division.

In order that Mr. Wyatt, who has been General Counsel since 1922, might have more time for the consideration of the broad legal problems of the Federal Reserve System and for consultation with the members of the Board, he has been relieved of administrative responsibilities and routine work and the functions of the Legal Division have been reallocated.

Mr. Wyatt, in his capacity as General Counsel, will carry out special assignments from the Board and be available to the Board, its members, and staff for consultation and advice.

Mr. Dreibelbis, formerly Assistant General Counsel, has been designated General Attorney and will have charge of the general legal work of the Board and the administration of the affairs of the Legal Division.

Messrs. Vest and Wingfield, formerly Assistants General Counsel, have been designated Assistant General Attorneys. Mr. Vest will be in charge in the absence of Mr. Dreibelbis, and Mr. Wingfield will be in charge in the absence of both Mr. Dreibelbis and Mr. Vest.

All Assistant Counsel have been designated Assistant Attorneys.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS AND CHAIRMEN
OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-542

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1942

Dear Sir:

You will recall that, at the suggestion of the Board, the Presidents of the Federal Reserve Banks discussed at their last Conference the desirability of discontinuing the submission to the Board of Governors of the annual budgets of the Federal Reserve Banks, when it was voted that the preparation of these budgets should be discontinued for all functions other than statistical and analytical and bank examination, with the understanding that each Bank would continue to exercise proper control over its operating expenses.

The Board concurs in this action and, with the two exceptions noted, approves the discontinuance of the submission to it of the annual budgets of the Federal Reserve Banks until such time as it appears that the matter should again be reviewed.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-543

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1942

Dear Sir:

Since September 1935, member firms of the New York Stock Exchange that carry margin accounts for customers have been filing with the Federal Reserve Banks monthly reports of their ledger balances on Form F.R. 240. In view of the inactivity that has existed in the stock market for some time, the Board has now determined to permit the filing of semiannual instead of monthly reports by all of these firms with the exception of the 15 firms having the largest amount of customers' debit balances.

Will you please send to the Board as soon as possible the names of reporting firms (if any) in your district that had customers' debit balances (Item 5 of Form F.R. 240) exceeding $5,000,000 on June 30, 1942, with their figures for this item. Out of such firms, the Board will determine which are the 15 reporting the highest amounts, which will continue for the present to file monthly reports.

Please request semiannual reports, therefore, as of December 31, 1942 and each June 30 and December 31 thereafter, from all firms which are now reporting to you monthly on Form F.R. 240 but which reported customers' debit balances of less than $5,000,000 as of June 30. It will not be necessary for you to obtain any further monthly reports from these firms for the present. As to any firms in your district with customers' debit balances exceeding $5,000,000, the Board will notify you which firms are to continue reporting monthly and which are to report semiannually.

All of the reporting firms that do not carry margin accounts for customers, or which are not members of the New York Stock Exchange but only of outside exchanges, are already reporting at semiannual instead of monthly intervals, and the present action of the Board will not affect these firms.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The Board has also authorized two minor changes in Form F.R. 240 as follows:

(1) The instruction as to the date when the report must be filed, may be changed to read as follows:

"This report is to be sent to the Federal Reserve Bank of _____ as soon as possible after the end-of-month date to which it relates, and should reach the Federal Reserve Bank in any event (except by special arrangement) not later than the 10th full business day of the following month."

(2) The question "Is firm otherwise extending any credit to customers?" may be deleted.

It is suggested that you continue to use the present forms until your supply is exhausted, but that these changes be incorporated in any new supply printed in the future.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-544

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 21, 1942

Dear Sir:

Because of the Board's responsibility in framing policy with respect to consumer credit, it seems desirable to centralize, so far as possible, the collection of the statistics of this field in the Reserve System. Heretofore, most of the work in this field has been done by the Bureau of Foreign and Domestic Commerce in the Department of Commerce. At our request, the Department of Commerce has agreed to transfer this statistical work to the Reserve System. The basic steps in effecting this transfer and the way in which the work is to be done within the System are described in the accompanying Memorandum of Arrangements.

This change will involve a considerable amount of added work for the research department in your Bank. It is suggested that you review the personnel requirements of this department to be certain that an adequate staff is provided, not only for the current maintenance, but for work in the improvement, revision, and extension of these series. The latter point is of particular importance because one of the prime purposes to be served by this transfer is the improvement of underlying reports. The System is in a strategic position to make these improvements because of the experience accumulated in the administration of Regulation W, and the data available only at the Reserve Banks, and because of the intimate contact of each Reserve Bank with the respondent concerns in its district.

Further correspondence on this subject should be addressed to Woodlief Thomas, Assistant Director of the Division of Research and Statistics.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-544-a

August 21, 1942.

MEMORANDUM OF ARRANGEMENTS FOR THE TRANSFER OF BUREAU OF FOREIGN AND DOMESTIC COMMERCE CONSUMER CREDIT STATISTICS TO THE FEDERAL RESERVE SYSTEM

In accordance with an agreement reached between the Board of Governors and the Department of Commerce, the statistical and research work in the field of consumer credit formerly conducted by the Bureau of Foreign and Domestic Commerce is being transferred to the Federal Reserve System. By consolidating functions relating to consumer credit in one agency, certain duplication of effort is avoided and the Board gains prompt access to information needed in connection with the regulation of consumer credit. Moreover, the Reserve Banks and branches provide effective machinery for the collection and tabulation of current data on the trend of consumer debt.

Effective date of transfer

The transfer becomes effective as of September first. The cash lending institutions and the retail trade groups furnishing monthly data on volume of business, collections and receivables will be requested to send August reports to the Reserve Banks. The Department of Commerce will send a letter to each respondent confirming the transfer.

Report forms and lists of respondents

A sufficient number of forms for the remainder of the year will be printed by the Board. A supply of these forms will be mailed to the Reserve Banks by the end of August.

The present mailing list of respondents of each type will be supplied to the Reserve Banks in the next few days. A suggested draft of a letter to respondents explaining the transfer and inviting their continued cooperation is attached. Since franked envelopes have been supplied them in the past, stamped self addressed envelopes should be included with each request for monthly data.

Current reports from cash lending institutions and retail trades

Monthly reports are obtained from industrial banking companies, personal finance companies, credit unions, jewelry stores, and household appliance stores. For the present these reports will be continued without change either in the number of respondents or the items reported. Any revision of the report forms or expansion of the sample to obtain more adequate coverage will be postponed until the reporting system is working smoothly and the Reserve Banks have had an opportunity to suggest desirable changes.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The size of each reporting group and the data obtained currently are as follows:

Industrial banking companies. - Some 320 industrial banks report monthly the following items: (1) volume of loans made during current month, including renewals; (2) outstandings at end of month. Respondents are asked to exclude from each item F.H.A. loans and instalment paper purchased from retailers.

Personal finance companies. - Reports are received from nearly 1,200 personal finance companies on (1) volume of loans made during current month; (2) outstandings at end of month. To eliminate the effect of purchase or sale of receivables between companies respondents are asked to exclude from reported items loan balances purchased from other companies but to indicate the amount of such purchase if any on the reverse side of the schedule.

Credit unions. - Approximately 1,300 credit unions report monthly on (1) volume of loans made to members during the month; (2) outstandings at end of month. The reporting group is made up of more than 600 State chartered credit unions and nearly 700 operating under Federal charter. Separate tabulations have been made of State and Federal credit unions and these will be continued.

Jewelry and household appliance stores. - There are approximately 100 respondents from each of these retail trade groups. Data are obtained only for the instalment business of reporting firms. The items reported are (1) instalment accounts on the books at end of month (excluding accounts sold to finance companies, banks or others); (2) collections during the month on accounts outstanding at end of preceding period.

Reporting by multi-office respondents

Some of the respondents reporting to the Department of Commerce have branches or subsidiaries operating over wide areas and including several Reserve districts. During the past few months Commerce has not been releasing regional summaries and these figures will not be resumed now. As long as district or regional totals are not released each Reserve Bank will collect total figures for respondents whose head offices are located in the district.

Tabulation of data

Except for the first month all data will be tabulated at the Reserve Banks. Aggregates by States and by kind of business for each reported item will be sent to the Board not later than the 22nd of the month following that to which the figures refer. Heretofore respondents have

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

been asked to file reports by the 10th of the month following the period to which they relate. The same time schedule will be followed under the new arrangements.

For the first month reports will be transmitted to the Board and tabulations will be made by the Department of Commerce. August reports should be forwarded to the Board promptly. These reports will be returned to the Reserve Banks as soon as the data are compiled. Thereafter, tabulations as outlined above will be made at the Reserve Banks. August reports are handled as described because the Board cannot at this time supply the back figures necessary for comparisons with earlier periods. As soon as the authorizations from respondents noted later in this memorandum are received, back schedules will be supplied the banks for future use in handling and revising the basic series.

Department and furniture store credit statistics

Department and furniture store credit data are now collected by the Reserve Banks. For some time the Bureau of Foreign and Domestic Commerce has been compiling reports of instalment and charge account outstandings and collections based on data furnished by the Reserve Banks. These reports present the information by geographical regions combined into a weighted United States total. The data will be compiled on this basis until they can be reworked by Reserve districts in accordance with the usual practices. Beginning with the August report, it will be necessary for the Reserve Banks to send the Board only one copy of the department store collections and receivables for individual stores classified by States.

In accordance with a previous agreement with the Department of Commerce, the Federal Reserve statistics on furniture store credit are to be substituted for those collected by the Department.

Release of consumer debt estimates and indexes

Current releases issued by the Department of Commerce will be taken over by the Board and continued in approximately their present form for the next few months. At present the following releases are published monthly:

1. Consumer instalment cash loans covering loan volume, repayments and outstandings of personal finance companies, credit unions and industrial banks.

2. Retail instalment credit - carrying indexes of instalment receivables and instalment collection ratios for furniture stores, household appliance stores and jewelry stores.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

3. Department store credit - containing indexes of open and instalment accounts receivables and collection percentage for open accounts and instalment accounts.

Copies of the most recent releases are attached for your information.

The Board will send current releases to respondents and others entitled to receive them using the present mailing list of the Department of Commerce. A study of each reporting group will indicate whether district totals of reported items should be released currently or whether publication by districts should be delayed until a more adequate coverage is obtained.

Other consumer debt statistics

In addition to published consumer debt statistics projected on the basis of monthly reports, the Board will take over certain unpublished debt series developed by the Department of Commerce. These unpublished data include charge account receivables, instalment debt of "all other retail stores", single payment commercial bank loans, F.H.A. Title I consumer loans, unregulated and miscellaneous cash lenders, service debt, pawnbroker loans, and mail order house receivables, collections and sales. Many of these series are extremely rough but until such time as more adequate information can be developed they will be used in arriving at all-inclusive estimates of the trend of consumer debt.

The transfer also covers the Retail Credit Survey which has been made annually by the Department of Commerce. Plans as to how and on what scale this survey will be continued have not as yet been formulated.

Authorization to transfer back reports

Because the reports for prior periods were given to the Credit Research unit of the Bureau of Foreign and Domestic Commerce in confidence, they are not to be transferred to the System without the authorization of the individual respondents. Cards for this purpose will be provided and will be collected with the first report. These authorizations should be sent to the Board and back reports will then be forwarded to the respective Reserve Banks.

Attachments

(Department of Commerce press statements with addressed copies only.)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Suggested draft of letter to be sent by
the Reserve Banks to the respondents

Dear Sir:

For some period now you have been reporting certain consumer credit figures to the Bureau of Foreign and Domestic Commerce. The statistics compiled by this agency have been of great use to the Reserve System in its administration of Regulation W. In view of the System's special interest in the field, arrangements have been made with the Department of Commerce to centralize the collection of such statistics in the Reserve System. A form for reporting August figures and an addressed and stamped return envelope are enclosed.

Your reports for prior periods were supplied in confidence to the Department of Commerce. In view of the transfer and because the back reports are necessary for the proper maintenance of the current series, we should appreciate your authorizing the Department of Commerce to transfer these back reports to the Federal Reserve System. This can be done by signing the enclosed card and returning it with your August report.

Your figures will be treated confidentially and the data will not be published in a manner that reveals the operations of individual establishments. The purpose of these reports is to supply factual material needed for determining the policies of consumer credit regulation as well as for the use of cooperating business concerns and the general public. They are not for the surveillance or control of individual establishments.

Very truly yours,

Enclosures

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-545

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 31, 1942

Dear Sir:

The following is an excerpt from a letter dated August 11, 1942, sent to a Federal Reserve Bank regarding Regulation W:

"This refers to your letters of June 1 and July 30, 1942, regarding the question whether, under Regulation W, a Registrant may purchase or discount an instalment obligation arising from the sale of an automobile on terms more liberal than those prescribed in the Regulation, if the obligation arose out of a bona fide transaction between two individuals not engaged in the business described in the Regulation and who were consequently not subject to its requirements.

"As your letter of June 1 indicates, the question is one with respect to which there may be reasonable differences of opinion. As you know, however, section 4 provides that 'each instalment sale shall comply' with the specified requirements applicable to the described obligations, and section 3(a) describes the persons who must observe these requirements. A person not 'engaged in the business' may extend credit without complying with section 4 only because he is exempt from section 3(a). Such exemption, however, is personal to the person making the casual transaction and it does not change the status of the paper or carry over to a subsequent purchaser thereof. It is the Board's view, therefore, that the fact that the credit was originally granted by a person who enjoyed such a personal exemption under section 3(a) does not alter the requirements that apply to the obligation and that must be followed by a Registrant who subsequently purchases or discounts the obligation.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

"On previous occasions when this question has been presented to it, the Board has referred to the second paragraph of W-57 as showing, according to the foregoing reasoning, that the Registrant may not purchase or discount the obligation if, at that time, it shows 'on its face' any failure to comply with section 4 or if the Registrant knew of any fact by reason of which it failed to comply with that section."

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-546

TELEGRAM

September 3, 1942

(Addressed to the Presidents of all Federal Reserve Banks)

The following is an excerpt from a telegram sent today to a Federal Reserve Bank:

> "Section 8(m) of Regulation W does not exempt credit to finance the installation of a stoker if same kind of coal is to be used. Stoker installed in connection with change of fuel, as from oil to soft coal or from hard coal to soft coal, qualifies only when stoker is necessary for mechanical reasons to burn the type of coal to be used."

(Signed) L. P. Bethea

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-547

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 5, 1942.

Dear Sir:

The Board has received inquiries relative to the revision of obligations arising out of credit extended to automobile salesmen for the purchase of demonstrators, which was formerly exempt under old section 6(h) of Regulation W. It is understood that, because of the unforeseen difficulties that have been encountered by the automobile trade, some salesmen are now unable to retire such obligations.

It is the Board's view that if the credit was extended originally for less than 12 months, the maturity of the obligation may be extended to 12 months from the date the credit was originally extended, in view of section 10(a). It is the Board's view also that if the Registrant accepts a Statement of Necessity in accordance with section 10(d), which, in view of the aforementioned difficulties, would seem to be proper in many cases, the renewed obligation may provide for instalments running 12 months from the date of the renewal.

Of course, if the note was originally made before September 1, 1941, it may be renewed in accordance with the principles stated in W-28.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY
BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-548

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 15, 1942

Dear Sir:

The Board has received from the War Department a memorandum dated September 10, 1942, signed by Lieutenant Colonel Paul Cleveland, regarding the cancellation of terminated guarantee agreements previously executed by the Federal Reserve Banks on behalf of the War Department under Executive Order No. 9112. For your information and guidance the statement regarding this matter contained in the War Department's memorandum is set forth below:

"1. In a number of cases, guarantee agreements executed by the Federal Reserve banks, as fiscal agents of the United States, have been terminated, either because of payment of the loan, execution of a superseding guarantee agreement, surrender of the guarantee agreement by the financing institution, or for some other reason.

"2. In all these cases, all executed copies of the terminated guarantee agreements in the possession of the Federal Reserve banks and the financing institutions should be physically cancelled, either by stamping the word 'cancelled' over the signature of the Federal Reserve Bank, or by perforation of the signature of the Federal Reserve Bank.

"3. In any case where the guarantee agreement in question has not already been physically cancelled, it is suggested that the best procedure will be for each Federal Reserve Bank to write to the financing institutions, requesting them to physically cancel the guarantee agreements in question, in the manner specified above, and to advise the Federal Reserve Bank that this has been done. The Federal Reserve Bank should then cancel its copies in the same manner.

"4. It is requested that all the Federal Reserve banks be asked to forward to the War Department at their early convenience a list of all guarantee agreements that

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

"have been so cancelled, and that thereafter they inform the War Department each time an executed guarantee is so cancelled."

In accordance with the fourth paragraph of the War Department's memorandum, it will be appreciated if you will forward to the Board at your early convenience for transmittal to the War Department a list of all guarantee agreements executed by your Bank on behalf of the War Department which have been cancelled as the result of their termination. It will also be appreciated if in the future you will advise the Board of each such cancellation of an executed guarantee agreement in order that we may transmit advice thereof to the War Department.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-549

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 15, 1942.

Dear Sir:

Colonel Mechem of the War Department recently advised us informally that one or two of the Federal Reserve Banks had requested reimbursement for the cost of furniture purchased for use in connection with work performed for the War Department pursuant to Executive Order 9112. He stated that he would prefer not to have to maintain an inventory record of furniture and equipment purchased by the Reserve Banks as fiscal agents of the War Department, and hoped that such purchases could be avoided.

If your Bank finds that it does not have furniture and equipment which it can use on a rental basis in handling work for the War Department or finds it impracticable to purchase furniture and equipment for its own account to be used on a rental basis in connection with work performed for the War Department, it will be appreciated if you will write us with respect thereto giving full details. Upon receipt of your letter we will take the matter up with the War Department to see what procedure can be worked out for acquiring the necessary furniture and equipment.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-550

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1942.

Dear Sir:

Referring to the Board's letter S-521 of June 30, 1942, the revised form enclosed with that letter has been modified by the following insertions and amendments:

9.(a)(6) Nature of product.

9.(b)(1) Amend to read: "Name and address of concern issuing subcontract and signatory."

9.(b)(3) Amend to read: "Unit of government for which products are being provided and prime contract number."

9.(b)(6) Nature of product.

In the case of Navy Department guarantees, where the applicant for the loan is a subcontractor, it is desirable, whenever possible, to obtain from the company letting the subcontract a letter relative to the subcontractor's ability to perform pursuant to the terms of the subcontract.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-552

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 17, 1942

Dear Sir:

The Bureau of the Budget began on August 31, 1942, to assign approval numbers and expiration dates to all the report forms of Federal agencies which have been reviewed and approved by the Division of Statistical Standards.

The appearance of an approval number on a report form will indicate to respondents that the form and the plans and procedures for the inquiry of which it is a part have been reviewed for technical adequacy, possible duplication, coordination with related work of other agencies, and the need for the inquiry in the light of the burden and cost both to respondents and to the Federal Government. Prior to the inauguration of the approval numbers, the Division of Statistical Standards of the Bureau, and its predecessor the Central Statistical Board made no provision to have an indication upon a form that it was duly reviewed and cleared.

The assignment of approval numbers will assist in more adequate control over report forms. The step was taken at the request of Federal agencies and business organizations because of the increasing burden on respondents resulting from the deluge of questionnaires mainly in connection with the war effort.

We believe that for numerous reasons it would be beneficial for the Banks, as well as the Board of Governors, to cooperate with the Bureau of the Budget in this undertaking. As you know, the Federal Reserve System has been cooperating with the Bureau of the Budget by furnishing it with a quarterly statement pertaining to report forms used by the Board of Governors and the Federal Reserve Banks.

There is enclosed explanatory material consisting of copies of Budget Circular No. 360, Supplement 1 to this circular,

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

and a memorandum from Stuart A. Rice, Assistant Director in Charge of Statistical Standards, to the heads of executive departments, independent establishments and other Government agencies, including corporations. We are also sending you five copies of DSS forms No. 63 and 63a. Please fill these in in accordance with the instructions contained in the explanatory material and return four of them to reach the Board not later than September 25, 1942, together with four copies of each questionnaire or report mentioned in the form, so that we can transmit them to the Bureau of the Budget before October 1.

Please note that with the inauguration of this report Budget Circular No. 351 (see F.R.L.L.S. #3945) which requires each Federal agency to report quarterly on all new forms, revised forms, and discontinued forms to the Division of Statistical Standards of the Bureau of the Budget, has been suspended until further notice. However, it will be necessary for you to send us any proposed new or revised form before its use is begun so that an approval number and an expiration date for the form may be obtained from the Division of Statistical Standards.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosures 15

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-553

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1942.

Dear Sir:

There is enclosed for your information a copy of General Order No. 54 Revised adopted by the Maritime Commission on August 25, 1942, and received by the Board with a letter of transmittal from the Maritime Commission dated September 12, 1942, relating to the delegation of authority by the Maritime Commission to guarantee loans under Executive Order No. 9112. Your particular attention is directed to paragraphs 1) and 2) of the General Order which, of course, affect the instructions of the United States Maritime Commission to all Federal Reserve Banks dated May 7, 1942.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

UNITED STATES MARITIME COMMISSION

Washington

At a regular session of the United States Maritime Commission held in its office in Washington, D. C., on the 25th day of August, 1942

GENERAL ORDER NO. 54 REVISED

Delegation of authority to guarantee loans by the United States Maritime Commission under the provisions of Executive Order 9112

WHEREAS, the Commission, pursuant to the provisions of Section 1 of Executive Order 9112, dated March 26, 1942, is authorized, without regard to the provisions of law relating to the making, performance, amendment or modification of contracts, (a) to enter into contracts with any Federal Reserve Bank, the Reconstruction Finance Corporation or with any other financing institution guaranteeing such Reserve Bank, Reconstruction Finance Corporation or other financing institution against loss of principal or interest in connection with loans which may be made for the purpose of financing any contractor, subcontractor or other engaged in any business or operation which is deemed by the Commission to be necessary, appropriate or convenient for the prosecution of the war, and to pay out funds in accordance with the terms of any such contract so entered into, and (b) to enter into contracts to make, or to participate with any Federal Reserve Bank, the Reconstruction Finance Corporation, or other financing institution in making loans, discounts or advances, or commitments in connection therewith, for the purpose of financing any contractor, subcontractor or others engaged in any business or operation which is deemed by the Commission to be necessary, appropriate or convenient for the prosecution of the war, and to pay out funds in accordance with the terms of any such contract so entered into;

WHEREAS, pursuant to Section 2 of said Executive Order, it is provided that the authority conferred by Section 1 thereof may be exercised by the Commission or may also be exercised in its discretion and by its direction through any officer or officers of the Commission, and that in the discretion and by the direction of the Commission, power may be conferred upon any such officer or officers to make further delegations of such powers within the Commission; and

WHEREAS, in order to facilitate the exercise of the Commission's powers pursuant to Executive Order 9112, it is necessary that the Commission delegate its authority thereunder to appropriate officers of the Commission for the performance and functions of the activities authorized by said Executive Order.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

1). Authority is hereby delegated to the Director and the Assistant Directors of Finance to exercise on behalf of the Commission the powers conferred by Executive Order 9112 and to make such further and other delegations of the said authority to other officers and employees of the Commission as they shall deem necessary and proper with respect to guarantees not in excess of One Hundred Thousand Dollars ($100,000.00) for any one loan; Provided, that the approval of the Commission shall be first had and obtained as to (a) guarantees of loans in excess of Two Hundred and Fifty Thousand Dollars ($250,000.00); (b) guarantees of more than ninety percentum (90%) of the amount of any loan; and (c) purchase orders and all other contracts of whatsoever type providing for an advance payment by the Commission.

2). All acts performed by the Director of Finance or Assistant Directors of Finance in accordance with the intent and purpose of said Executive Order 9112 are hereby ratified and approved.

By Order of the
United States Maritime Commission

(Sgd.) W. C. PEET, Jr.
Secretary

August 25, 1942.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-554

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

September 21, 1942.

Dear Sir:

The Board of Governors has amended its Regulation A, effective immediately, by adding the following sentence at the end of subsection (h) of section 1 thereof:

> "The requirement of this section of the Regulation that a note, draft or bill of exchange be negotiable shall not be applicable with respect to any note, draft or bill of exchange evidencing a loan which is in whole or in part the subject of a guarantee or commitment by the War Department, Navy Department, or United States Maritime Commission pursuant to Executive Order No. 9112."

Please have the necessary copies of the amendment printed for distribution in your district.

In connection with notes evidencing loans guaranteed under Executive Order No. 9112, the question has been raised whether such a note which is otherwise eligible for discount or as collateral for advances by a Federal Reserve Bank under section 13 of the Federal Reserve Act is rendered ineligible by the fact that the note incorporates by reference the terms of the standard form of guarantee agreement used by the War Department, Navy Department and Maritime Commission, providing for suspension of maturity of a part or all of the guaranteed loan in the case of cancellation or termination of one-fourth or more of the borrower's war production contracts.

Although by reason of this provision the note is subject to a contingency in which maturity may be suspended, the maturity stated on the face of the note will not be more than 90 days at the time of acquisition by the Federal Reserve Bank, and, pending the cancellations of one-fourth or more of the borrower's war production contracts, which may or may not occur in the future, the note will in all cases be payable at its expressed maturity. Accordingly, the Board is of the opinion that the fact that the suspension of maturity provisions of the standard form of guarantee agreement are incorporated in the note does not render it ineligible for discount or as collateral for advances by a Federal Reserve Bank under section 13 of the Federal Reserve Act. However, when cancellation or termination of one-fourth or more of the borrower's war production contracts

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

in the manner indicated in the standard form of guarantee agreement has occurred, suspension of maturity is no longer dependent upon a contingency but may be effected merely at the will of the borrower and, accordingly, in the Board's opinion, such notes if then offered for discount may not be considered eligible. As a practical matter, if, when such notes are offered, the Federal Reserve Bank has reason to believe that cancellations in such amount are imminent, the notes should not be acquired by the Reserve Bank under section 13 of the Federal Reserve Act.

Another question which has been raised in this connection is whether a note evidencing a loan guaranteed pursuant to Executive Order No. 9112 which is otherwise eligible for discount by a Federal Reserve Bank is rendered ineligible by the fact that the note is issued under a revolving fund arrangement whereby the financing institution is obligated to extend credit up to a specified maximum amount over a specified period of months or years. Upon the maturity of the 90-day note the financing institution can be required by the borrower to lend the same amount for another 90 days, and the proceeds of the second note can be used to pay off the first. This commitment, however, does not affect the Federal Reserve Bank, and it is assumed that the Reserve Bank in discounting such note or accepting it as security for an advance will have no obligation or commitment to extend or renew the credit at maturity or to accept other notes in lieu thereof. The Federal Reserve Bank is, therefore, legally entitled to require payment at the end of the 90-day period. Accordingly, in the Board's opinion, the fact that such a note may be a part of a revolving fund arrangement of the kind described does not prevent its being eligible for discount or as security for an advance under section 13 of the Federal Reserve Act.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-555

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 22, 1942.

Dear Sir:

There is attached hereto a copy of a letter from the Commissioner of Internal Revenue dated September 9, 1942, which sets forth the requirements necessary in order to avoid the application of the first-in, first-out rule with regard to the taxation of dividends on Federal Reserve Bank stock.

You will note that the letter suggests that the member bank in making application for cancellation of Federal Reserve Bank stock specify the shares which it desires to have cancelled. Accordingly, forms F. R. 56 and 56a (applications for adjustments in holdings of Federal Reserve Bank stock) have been amended so that the member bank may signify the shares desired to be cancelled. A copy of the draft of revised form 56 is attached, and a supply of both forms will be sent to you under separate cover.

In order to make it clear that the intention of the member bank was carried out in the matter of surrendering Federal Reserve Bank stock, you will note that the Commissioner of Internal Revenue has suggested that the Federal Reserve Bank show on the stock certificate the number of shares issued and paid for prior to March 28, 1942, and the number of shares issued and paid for on or after that date. To meet this suggestion, Federal Reserve Bank stock certificates issued by your Bank on or after March 28, 1942, may be endorsed on the reverse side in the following manner, the endorsement to be signed preferably by one of the officers whose signature appears on the face of the certificate:

"This certificate represents _____ shares of Federal Reserve Bank stock which were purchased and paid for prior to March 28, 1942, and _____ shares of Federal Reserve Bank stock purchased and paid for on or after March 28, 1942.

_____
Signature

_____"
Title of Officer

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

If desired, arrangements will be made with the Bureau of Engraving and Printing in Washington to have this endorsement printed on the reverse side of all future issues of the Federal Reserve Bank stock certificates. Meantime, the endorsement may be applied by rubber stamp or in some other manner.

In the next to the last paragraph of the letter from the Commissioner of Internal Revenue, he indicates that if it is feasible to have two certificates of Federal Reserve Bank stock outstanding, one representing stock purchased and paid for prior to March 28, 1942, and the other stock purchased and paid for on or after that date, it would facilitate identification for the purpose of determining taxability on shares of Federal Reserve Bank stock. In the circumstances, any Federal Reserve Bank that so desires is authorized to have not more than two certificates of stock outstanding in the case of each member bank, one to represent stock purchased and paid for prior to March 28, 1942, and the other to represent stock purchased and paid for on or after that date. This may be done without regard to the provision of Regulation I that no more than one certificate shall be outstanding in the case of any one member bank, and an appropriate revision of Regulation I will be made when that regulation is reprinted. If this procedure is adopted it will be necessary, of course, for the Federal Reserve Bank to make an appropriate endorsement on any certificate issued on or after March 28, 1942, but representing stock purchased and paid for prior to that date. This will come about, for example, if a member bank reduces its capital and surplus and, as a consequence, is required to surrender some of its Federal Reserve Bank stock. The endorsement in such cases should read "This certificate represents shares of Federal Reserve Bank stock which were purchased and paid for prior to March 28, 1942." No endorsement would be required, of course, on certificates representing stock purchased and paid for on or after March 28, 1942.

The alternative procedure outlined in the preceding paragraph may be preferred by some of the Reserve Banks, if they anticipate that relatively few member banks will have occasion to surrender Federal Reserve Bank stock purchased before March 28, 1942. Particular care, however, would have to be taken that the occasional endorsements on stock certificates which would be required under such a procedure are not overlooked.

The Board will appreciate it if you will advise it, in response to this letter, whether your Bank decides (1) to have only one Federal Reserve Bank stock certificate outstanding in the case of

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

each member bank, as outlined in the third paragraph of this letter, or (2) to have two certificates outstanding in accordance with the alternative plan outlined in the fourth paragraph.

It is suggested that, if any circular letter is sent to the member banks on this subject, their attention be called to the subject matter of the last paragraph of the letter of the Commissioner of Internal Revenue.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

TREASURY DEPARTMENT

Washington

Office of
Commissioner of Internal Revenue

September 9, 1942

Board of Governors,
Federal Reserve System,
Washington, D. C.

Attention Mr. L. P. Bethea, Assistant Secretary.

Sirs:

Reference is made to your letter of August 4, 1942, regarding the application of section 6 of the Public Debt Act of 1942, approved March 28, 1942 (Internal Revenue Bulletin 1942-16, p. 32), and Treasury Decision 5160 (I.R.B. 1942-28, 2), as relating to the taxability of dividends on shares of Federal Reserve Bank stock.

Your inquiry concerns the ascertainment of whether the dividends are on shares purchased and paid for prior to, or on or after, March 28, 1942 (the effective date of section 6, supra).

In connection with such ascertainment, you refer to the "first-in, first-out" rule, which is applicable, inter alia, in ascertaining what particular shares of stock in a corporation are disposed of, in the absence of positive identification thereof, where the seller has several lots of such stock purchased at different dates. Section 19.22(a)-8 of Regulations 103; Helvering v. Jas. L. Rankin (1935, 295, U.S. 123, Ct. D. 966, C.B. XIV-1, 160); John A. Snyder v. Commissioner (1935, 295 U.S. 134, Ct. D. 967, C.B. XIV-1, 164).

You state that, by virtue of your Board's Regulation I, a member bank may not have more than one stock certificate evidencing its holdings of Federal Reserve Bank stock, and that it is possible for a certificate (issued on or after March 28, 1942) to represent shares purchased and paid for prior to as well as on or after March 28, 1942.

You request advice, (1) whether the "first-in, first-out" rule will be inapplicable, in ascertaining the particular shares of Federal Reserve Bank stock on which dividends have been received, if, when a member bank surrenders some of its shares of Federal Reserve Bank stock in reduction of its aggregate holdings, it identifies, by reference to the date they were purchased and paid for, the shares surrendered. You are advised that the "first-in, first-out" rule is inapplicable in such ascertainment where the particular shares on which dividends are received are positively identified as having been purchased and paid for either prior to or on or after March 28, 1942. See G.C.M. 11743 (1933, C.B. XII-2, 31); Louis G. Neville (1933, 29 B.T.A. 450); H. H. Franklin (1938, 37 B.T.A. 471, acq. C.B. 1938-2, 12). It is, of course, impracticable to outline comprehensively

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the proof or evidence which will be required or accepted as satisfactorily showing or constituting such identification in every case. Cf. Henry C. Heinz v. Commissioner (1934, CCA-5, 70 F.(2d) 461); Geo. Vawter v. Commissioner (1936, CCA-10, 83 F. (2d) 11, Ct. D. 1193, C.B. 1937-1, 184, certiorari denied 299 U.S. 578); S.B. Kraus v. Commissioner (1937, CCA-2, 88 F. (2d) 616, Ct. D. 1273, C.B. 1937-2, 249).

In the event the answer to question (1) is in the affirmative, you request further advice, (2) whether there is sufficient identification for the purposes of the ascertainment here concerned, if, when a member bank so surrenders shares of Federal Reserve Bank stock, it identifies the shares surrendered by reference, on APPLICATION FOR ADJUSTMENT IN HOLDINGS OF FEDERAL RESERVE BANK STOCK (Federal Reserve System Form 56, Revised 1936), to the date they were purchased and paid for. You are advised that such identification will be accepted as satisfactory, for the purposes of the ascertainment here concerned, provided that, also, the (single) stock certificate representing the shares on which the dividends are received shows the number of shares purchased and paid for prior to March 28, 1942, and the number of shares, if any, purchased and paid for on or after that date. After all, the certificate is the best evidence of the shares a member bank holds, in the absence of clear and convincing evidence of error therein. See J. E. Davidson v. Commissioner (1938, 305 U.S. 44, Ct. D. 1366, C.B. 1938-2, 227); I. T. 3426 (C.B. 1940-2, 41); A. F. Mack (1935, 31 B.T.A. 1149).

It was contemplated in section 19.22(b)(4)-2 of Regulations 103, as amended by T. D. 5160 (supra), that it was feasible to arrange for issuance by the Federal Reserve Banks of two certificates outstanding at one time to a particular member bank where it is the holder of some Federal Reserve Bank stock purchased and paid for prior to March 28, 1942, and of some such stock purchased and paid for on or after that date. It is believed that if this be done, with each certificate showing the respective holdings accordingly, it would greatly facilitate identification for the purposes here concerned.

It may be added that before a member bank surrenders a certificate or certificates which shows such respective holdings, it should make, and retain in its files for convenient reference and as permanent evidence in this connection, a photostatic or certified copy of the certificate or certificates.

Respectfully,

(Signed) Guy T. Helvering

Commissioner.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-556

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 22, 1942.

Dear Sir:

In its letter of March 6, 1942, the Board advised you that it had decided not to amend Regulation R so as to permit interlocking relationships between member banks and open-end investment companies. Accordingly, in administering the Regulation, it will be necessary to determine from time to time whether particular open-end investment companies are "primarily engaged" in the issue or distribution of their own stock (see 1941 Federal Reserve Bulletin, page 399; letter of May 26, 1941, S-269, F.R.L.S. #7610; and letter of October 26, 1934, X-8097).

An open-end investment company is defined in section 5(a)(1) of the Investment Company Act of 1940 as a company "which is offering for sale or has outstanding any redeemable security of which it is the issuer." Section 2(a)(31) of said Act provides that a "redeemable security" means "any security, other than short-term paper, under the terms of which the holder, upon its presentation to the issuer or to a person designated by the issuer, is entitled (whether absolutely or only out of surplus) to receive approximately his proportionate share of the issuer's current net assets, or the cash equivalent thereof."

It is customary for such companies to have but one class of securities, namely, capital stock, and it is apparent that the more or less continued process of redemption of the stock issued by such a company would restrict and contract its activities if it did not continue to issue its stock. Thus, the issuance and sale of its stock is essential to the maintenance of the company's size and to the continuance of operations without substantial contraction, and therefore the issue and sale of its stock constitutes one of the primary activities of such a company.

Accordingly, it is the opinion of the Board that if such a company is issuing or offering its redeemable stock for sale, it is "primarily engaged in the issue *** public sale, or distribution,

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

**** of securities" and that section 32 of the Banking Act of 1933, as amended, prohibits an officer, director or employee of any such company from serving at the same time as an officer, director or employee of any member bank. It is the Board's view that this is true even though the shares are sold to the public through independent organizations with the result that the investment company does not derive any direct profit from the sales.

If, however, the company has ceased to issue or offer any of its stock for sale, the company would not be engaged in the issue or distribution of its stock and, therefore, the prohibition contained in section 32 would be inapplicable unless the company were primarily engaged in the underwriting, public sale or distribution of securities other than its own stock.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-557

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 22, 1942.

Dear Sir:

Your attention is directed to the modification of the Board's policy with respect to the reappointment of Class C directors who have completed six years of continuous service, except in the case of the Chairmen of the Federal Reserve Banks, copy of which is enclosed for your ready reference. This statement was published in the Federal Reserve Bulletin for September 1942 on page 881.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

TERMS OF DIRECTORS OF THE FEDERAL RESERVE BANKS AND BRANCHES

Directors of a Federal Reserve Bank are elected or appointed for terms of three years. The Board of Directors of each Federal Reserve Bank consists of nine directors, three of whom are designated as Class A directors, three as Class B directors, and three as Class C directors. The six Class A and Class B directors are elected by the member banks of the district, while the three Class C directors are appointed by the Board of Governors of the Federal Reserve System. The Class A directors are chosen as representatives of the member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit. The Class C directors may not, under the law, be either officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

Since the Federal Reserve Banks are public institutions operated in the public interest and not for private profit, the Board has felt that a certain degree of rotation in the membership of the directorates of the Reserve Banks is desirable in order to gain the advantages of broader representation over a period of time and insure against a possible crystallization of the influence of individuals,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

groups, or interests which might not be in the public interest. Accordingly, in 1935 the Board announced that, as a matter of broad policy, it would not reappoint directors who had completed six years of continuous service, except Chairmen of the Federal Reserve Banks.

It was hoped that the same policy would be followed in the elections by member banks of Class A and Class B directors. This has been true only to a limited extent. Thus, in most instances the effect of the general rule laid down in 1935 has been to place a limitation upon the length of service of directors appointed by the Board without a corresponding limitation upon the terms of the elected directors. The Board has accordingly concluded to dispense at this time with any fixed rule as to the length of service of Class C directors and will be governed by the situation at the particular Reserve Bank. The Board, however, will adhere generally to the policy of rotation in the service of Class C directors.

The situation at the branches of the Federal Reserve Banks is somewhat different. Pursuant to statutory authority, the Board of Governors has issued regulations governing the operation of the branches, under which a branch director (except the managing director who is also the chief operating officer of the branch) is not eligible for reappointment immediately following six or more years of continuous service. This policy will be continued since it applies to all directors of a branch (other than the managing director), and not merely to one group.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-558
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 25, 1942

Dear Sir:

There is enclosed a copy of the Board's letter of this date to Mr. W. J. Evans, Vice President of the Federal Reserve Bank of Dallas, referring to a proposed standard caption to appear at the top of form F. R. 105e when that form is used for joint publication of condition reports rendered by State member banks to State banking departments and Federal Reserve Banks, respectively.

For some time Mr. John Q. McAdams, Commissioner of Banking in the State of Texas, at the request of the President of the National Association of Supervisors of State Banks and in consultation with officers of the Federal Reserve Bank of Dallas, has been endeavoring to formulate a standard caption which would be acceptable both to the State banking authorities of the various States and to the Board of Governors. The Board is now informed that supervisors in 37 States have approved the proposed caption, which had previously been approved by the Board. A list of these States appears in the enclosed copy of Mr. McAdams' letter of August 24.

The Board has decided to print two different editions of form F. R. 105e, one for use in States where joint publication is made and the other for use where reports made to Federal Reserve Banks are published separately from those submitted to State banking authorities. Copies of the draft of each form (F. R. 105e and F. R. 105e-1) are enclosed.

It will be appreciated if you will advise the Board as soon as practicable how many copies of forms F. R. 105e and F. R. 105e-1 will be needed for the next call and how many copies, if any, of form F. R. 105e should be sent direct to each State banking department in your district.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Enclosures 4

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-558-a

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
Washington

Mr. W. J. Evans, Vice President,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Mr. Evans:

This refers to your letters of August 25, August 31, and September 10, 1942, and to the letter dated August 24, 1942, from Mr. John Q. McAdams, Commissioner of Banking of the State of Texas, concerning the proposed standard caption to appear at the top of form F. R. 105e when that form is used for joint publication of condition reports rendered by State member banks to State banking departments and Federal Reserve Banks, respectively.

The revised caption, as approved by the bank supervisory authorities in 37 States, is as follows:

REPORT OF CONDITION OF "_____"

of_____,
at the close of business_____, a State banking institution organized and operating under the banking laws of this State and a member of the Federal Reserve System. Published in accordance with a call made by the State Banking Authorities and by the Federal Reserve Bank of this District.

The revision on the back of the form provides that the certificate of publication shall be signed and sworn to by an officer of the newspaper, thus replacing the present requirement that the certificate be signed (but not sworn to) by an officer either of the bank or of the newspaper.

According to our records, there are now 39 States with which arrangements have been made for joint publication of condition reports. This does not mean, as you doubtless know, that all of these States use the Board's form F. R. 105e and a standard caption pertaining to joint publication. Some States use their own forms for nonmember banks but accept from State member banks statements published in accordance with the Board's form F. R. 105e, while a few

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

use a special form that meets their own as well as the Board's requirements. It is noted that Mr. McAdams lists Massachusetts and Connecticut as approving the standard caption. Arrangements have not previously been made in these States for joint publication because of the departmental banking forms used. Of the remaining seven States, Illinois, California, and Louisiana may be unable to adopt the proposed standard form because of certain State laws; Maine, New Hampshire, and Vermont (which has no State member banks) do not require the publication of condition reports; and North Dakota has no State member banks.

A review of our files also indicates that the certificate of publication is signed by an officer of the newspaper in 32 States now cooperating and by an officer of the bank in four States. In the three other States in which joint publication is made there seems to be no uniformity on this point.

In the above circumstances it has been decided to print two different editions of the publisher's copy, one (form F. R. 105e) for use in States where joint publication is made and the other (form F. R. 105e-1) for use where reports made to Federal Reserve Banks are published separately from those submitted to State banking authorities. Two copies of the draft of each form are enclosed. On the first form (F. R. 105e) jurats are provided on the face and reverse sides, and on the reverse side provision has been made for the execution of the certificate of publication by an officer of the newspaper. On the second form (F. R. 105e-1) no notary's jurat appears on either the face or reverse side. No provision has been made on either form for showing the State charter number in the upper right-hand corner, and in the few States where the charter number is required to be shown the forms may be appropriately stamped.

It will be appreciated if you will advise the Board as soon as practicable how many copies of forms F. R. 105e and F. R. 105e-1 will be needed for the next call and how many copies, if any, of form F. R. 105e should be sent direct to each State banking department in your district.

A copy of this letter is being sent to the Presidents of all other Federal Reserve Banks.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

Enclosures

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-558-b

DEPARTMENT OF BANKING
Jno. Q. McAdams, Commissioner
Austin

August 24, 1942.

Mr. W. J. Evans, Vice President
Federal Reserve Bank of Dallas
Dallas, Texas

Dear Joe:

Enclosing Federal Reserve Form 105e, modified or changed according to our version of the wishes of the Banking Departments we have contacted over the Country. We have pasted a slip of paper over the printed heading provided by the Federal Reserve Board and have modified the jurat on the reverse side to require the signature of the publisher to the elimination of affirmation by a bank official.

As I told you when I was in the office some of the Commissioners have presented arguments concerning various and sundry phases of this situation, but as a goodly number have approved the caption we suggested, the proper course just now would seem to be to supply the Banking Departments which are in agreement and adjust our differences with the other departments as quickly as possible. The following is a list of the states whose banking commissioners are in agreement:

Alabama	Kansas	New Mexico	Texas
Arizona	Kentucky	North Dakota	Utah
Arkansas	Maine	Ohio	Vermont
Connecticut	Massachusetts	Oklahoma	Virginia
Delaware	Minnesota	Oregon	Washington
Florida	Mississippi	Rhode Island	West Virginia
Georgia	Missouri	South Carolina	Wisconsin
Idaho	Nebraska	Tennessee	Wyoming
Iowa	Nevada	Colorado*	Indiana*
			New Jersey*

Again we thank you for the very prompt and intelligent manner in which you have assisted us in this undertaking, and with best wishes and personal regards, we are

Cordially and sincerely,

(Signed) Jno. Q. McAdams

Commissioner

*Added in accordance with Mr. Evans' letter of September 10.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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.

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-560

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 30, 1942.

Dear Sir:

The War Department, the Navy Department, and the United States Maritime Commission have adopted instructions in substantially similar form for the guidance of the Federal Reserve Banks in arranging guarantees and in servicing guaranteed loans pursuant to Executive Order No. 9112. The instructions are contained in the following letters to all Federal Reserve Banks, copies of which are transmitted herewith:

(1) Letter from the Navy Department to all Federal Reserve Banks, dated September 17, 1942, signed by Mr. S. A. Mitchell, Chief of Finance Section;

(2) Letter from the War Department to all Federal Reserve Banks, dated September 21, 1942, signed by the Honorable Robert P. Patterson, Under Secretary of War; and

(3) Letter from the United States Maritime Commission to all Federal Reserve Banks, dated September 23, 1942, signed by Mr. R. E. Anderson, Director of Finance.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Enclosure 3

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-560-a

NAVY DEPARTMENT

WASHINGTON

September 17, 1942

TO ALL FEDERAL RESERVE BANKS:

The Federal Reserve Banks are requested to observe the following instructions in arranging and closing guarantees pursuant to Executive Order No. 9112 on behalf of the Navy Department and in following the progress of loans which have been guaranteed. The Navy Department does not deem it practicable to prescribe rigid instructions governing the question whether a Federal Reserve Bank should ascertain the information or take the actions herein indicated through its own efforts or should rely upon the financing institution to do so, as this matter is one which should be governed by the circumstances of particular cases. While the Navy Department does however expect the Federal Reserve Banks to use their best banking judgment in these matters, it will not hold a Federal Reserve Bank responsible if it exercises a discretion in good faith in accordance with the instructions herein given.

Arranging Guarantees

In arranging, executing and completing guarantees a Federal Reserve Bank should exercise its discretion as to the steps to be taken to see that the conditions of the authorization for the guarantee and the instructions of the Navy Department are observed. The Reserve Bank should, of course, carefully prepare the guarantee agreement in accordance with the standard form and such special provisions as may be approved or required in the particular case by the Navy Department. The Reserve Bank may make minor changes in the terms and conditions of the loan prescribed by the Navy Department in authorizing the guarantee without obtaining the prior approval of the Navy Department provided such changes in the terms are considered by the Reserve Bank in its discretion not to make any important or substantial alteration. All the terms and conditions prescribed by the Navy Department either in the identical form prescribed or as modified by such minor changes, should be included in summary form in the guarantee agreement. When the Reserve Bank has received the authorization from the Navy Department, it should transmit to the financing institution the guarantee agreement with such written advice of the conditions which are required in connection with the guarantee and such other information as it may deem appropriate. The Reserve Bank should ascertain, or, if it deems it safe to do so, rely upon the financing institution to see, that the conditions prescribed by the Navy Department in authorizing the loan are fulfilled and that the loan agreement, if any, assignments of contracts or other collateral,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

and any standby or subordination agreements or other similar documents unless such documents have been previously passed upon by the Navy Department do not contain provisions which conflict with any provision of the guarantee agreement or with any condition prescribed by the Navy Department in authorizing the guarantee in question. For example, if among the terms of the authorization is a provision that the proceeds of the loan be used only for expenditures in connection with contracts assigned as security for the loan, the Federal Reserve Bank should satisfy itself that mechanics reasonably calculated to assure this result have been set up. Where feasible, copies of loan agreements and the form of the notes should be obtained from the financing institution and one copy forwarded to the Navy Department through the Board of Governors.

The Federal Reserve Bank should exercise its discretion as to whether to examine into the legal sufficiency of mortgages, deeds of trust and other similar collateral. In some cases it may find it desirable to do this before the guarantee agreement is executed, but in many cases, that may be impracticable, and reliance may then be placed upon a statement of the financing institution. In the latter event the Federal Reserve Bank may deem it to be in the interests of the Navy Department that these matters be looked into after the execution of the guarantee agreement. The Federal Reserve Bank will not be expected to examine into questions of legal incorporation of the borrower or other party, or of the authority of the signing officers of the borrower or other party, unless there are special circumstances which make the Federal Reserve Bank feel that this is necessary in the particular case.

The Federal Reserve Bank must satisfy itself that the various matters mentioned above have been properly examined into. It may accomplish this result by making the examination itself, or, in the exercise of its discretion, may rely upon the financing institution to do so. However, it should not rely upon the financing institution if by reason of the size or character of the financing institution, or the quality of its management, the percentage of guarantee, or other considerations, it has reason to believe that the financing institution will not check all the appropriate matters or that the information obtained from the financing institution on this subject may not be entirely adequate. The question as to the circumstances in which the Federal Reserve Bank is justified in relying on the financing institution is left to the determination of the Reserve Bank in its discretion, in the absence of specific instructions in the particular case from the Navy Department.

Servicing Guaranteed Loans

In connection with each loan guaranteed pursuant to Executive Order No. 9112, the Federal Reserve Bank should, in the absence of special circumstances, require reports from the financing institution

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

showing the daily net outstanding amounts of each guaranteed loan and such other pertinent information as the Reserve Bank may deem necessary. Such reports should be required at such times and in such form as the Reserve Bank deems appropriate. The Reserve Bank may require such other reports, explanations and information from the financing institution or the borrower, make such visits to the financing institution or the borrower, and take such other steps as in its judgment may be desirable in this connection or as are requested by the Navy Department. The Reserve Bank will be expected to furnish the information requested in the letter addressed to you by the Board of Governors of the Federal Reserve System under date of June 30, 1942 (S-520).

The question as to the extent to which the Federal Reserve Bank should follow the progress of guaranteed loans or rely upon the financing institution to do so is left to the determination of the Reserve Bank in its discretion, in the absence of specific instructions in the particular case from the Navy Department. In this connection, consideration should be given the circumstances of the particular case, including the amount and nature of the loan and of the collateral, the size and character of the financing institution and the quality of its management, the percentage of guarantee, information received with respect to the progress of the loan, and other considerations.

In the usual cases the Federal Reserve Bank will not be expected to make or undertake to enforce any requirement with respect to the obtaining or maintenance of insurance by the borrower. In the absence of special instructions from the Navy Department, this may be left to the financing institution. There is no objection, however, to the Reserve Bank's taking such steps as it deems necessary with respect to the maintenance of insurance if for any reason it feels that it is desirable to do so in any particular case.

In the absence of specific instructions from the Navy Department, the Reserve Bank may, in cases where it deems it appropriate in order to enforce compliance with conditions of the loan agreement, suggest to the financing institution such action as appears necessary in any particular case regarding salaries of executive officers of the borrower, payment of dividends by the borrower, incurring of indebtedness by the borrower, the making of capital expenditures by the borrower, or other similar matters, and in the event that the Reserve Bank and the financing institution cannot agree on a basis which the Reserve Bank believes to be in the best interests of the Government, the matter should be reported to the Navy Department.

It is possible that the Navy Department may find it necessary at a later date, in the light of experience with guaranteed loans, to issue additional or supplementary instructions with regard to the responsibilities of the Federal Reserve Banks with respect to the matters discussed above.

NAVY DEPARTMENT OF THE UNITED STATES

By (Signed) S. A. Mitchell
S. A. Mitchell
Chief of Finance Section

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-560-b

September 21, 1942

TO ALL FEDERAL RESERVE BANKS:

The Federal Reserve Banks are requested to observe the following instructions in arranging and closing guarantees pursuant to Executive Order No. 9112 on behalf of the War Department and in following the progress of loans which have been guaranteed. The War Department does not deem it practicable to prescribe rigid instructions governing the question whether a Federal Reserve Bank should ascertain the information or take the actions herein indicated through its own efforts or should rely upon the financing institution to do so, as this matter is one which should be governed by the circumstances of particular cases. While the War Department does however expect the Federal Reserve Banks to use their best banking judgment in these matters, it will not hold a Federal Reserve Bank responsible if it exercises a discretion in good faith in accordance with the instructions herein given.

Arranging Guarantees

In arranging, executing and completing guarantees a Federal Reserve Bank should exercise its discretion as to the steps to be taken to see that the conditions of the authorization for the guarantee and the instructions of the War Department are observed. The Reserve Bank should, of course, carefully prepare the guarantee agreement in accordance with the standard form and such special provisions as may be approved or required in the particular case by the War Department. The Reserve Bank may make minor changes in the terms and conditions of the loan prescribed by the War Department in authorizing the guarantee without obtaining the prior approval of the War Department provided such changes are considered by the Reserve Bank in its discretion not to make any important or substantial alteration (in the terms or conditions prescribed). All the terms and conditions prescribed by the War Department either in the identical form prescribed or as modified by such minor changes, should be included in summary form in the guarantee agreement. When the Reserve Bank has received the authorization from the War Department (or is prepared to execute the guarantee if the case is one in which no advance approval from the War Department is necessary), it should transmit to the financing institution the guarantee agreement with such written advice of the conditions which are required in connection with the guarantee and such other information as it may deem appropriate. The Reserve Bank should ascertain, or if it deems it safe to do so, rely upon the financing institution to see, that the conditions prescribed by the War Department in authorizing the loan are fulfilled and that the loan agreement, if any, assignments of contracts or other collateral, and any standby or subordination agreements or other similar documents unless such documents have been previously passed

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

upon by the War Department do not contain provisions which conflict with any provision of the guarantee agreement or with any condition prescribed by the War Department in authorizing the guarantee in question. For example if among the terms of the authorization is a provision that the proceeds of the loan be used only for expenditures in connection with contracts assigned as security for the loan, the Federal Reserve Bank should satisfy itself that mechanics reasonably calculated to assure this result have been set up. Where feasible, copies of loan agreements and the form of the notes should be obtained from the financing institution and one copy forwarded to the War Department through the Board of Governors.

The Federal Reserve Bank should exercise its discretion as to whether to examine into the legal sufficiency of mortgages, deeds of trust and other similar collateral. In some cases it may find it desirable to do this before the guarantee agreement is executed, but in many cases, that may be impracticable, and reliance may then be placed upon a statement of the financing institution. In the latter event the Federal Reserve Bank may deem it to be in the interests of the War Department in some cases that these matters be looked into after the execution of the guarantee agreement. The Federal Reserve Bank will not be expected to examine into questions of legal incorporation of the borrower or other party, or of the authority of the signing officers of the borrower or other party, unless there are special circumstances which make the Federal Reserve Bank feel that this is necessary in the particular case.

The Federal Reserve Bank must satisfy itself that the various matters mentioned above have been properly examined into. It may accomplish this result by making the examination itself, or, in the exercise of its discretion, may rely upon the financing institution to do so. However, it should not rely upon the financing institution if by reason of the size or character of the financing institution or the quality of its management, the percentage of guarantee, or other considerations, it has reason to believe that the financing institution will not check all the appropriate matters or that the information obtained from the financing institution on this subject may not be entirely adequate. The question as to the circumstances in which the Federal Reserve Bank is justified in relying on the financing institution is left to the determination of the Reserve Bank in its discretion, in the absence of specific instructions in the particular case from the War Department.

Servicing Guaranteed Loans

In connection with each loan guaranteed pursuant to Executive Order No. 9112, the Federal Reserve Bank should, in the absence of special circumstances, require reports from the financing institution showing the daily net outstanding amounts of each guaranteed loan and

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

such other pertinent information as the Reserve Bank may deem necessary. Such reports should be required at such times and in such form as the Reserve Bank deems appropriate. The Reserve Bank may require such other reports, explanations and information from the financing institution or the borrower, make such visits to the financing institution or the borrower, and take such other steps as in its judgment may be desirable in this connection or as are requested by the War Department. The Reserve Bank will be expected to furnish the information requested in the letter addressed to you by the Board of Governors of the Federal Reserve System under date of June 30, 1942 (S-520).

The question as to the extent to which the Federal Reserve Bank should follow the progress of guaranteed loans or rely upon the financing institution to do so is left to the determination of the Reserve Bank in its discretion, in the absence of specific instructions in the particular case from the War Department. In this connection, consideration should be given the circumstances of the particular case, including the amount and nature of the loan and of the collateral, the size and character of the financing institution and the quality of its management, the percentage of guarantee, information received with respect to the progress of the loan, and other considerations.

In the usual cases the Federal Reserve Bank will not be expected to make or undertake to enforce any requirement with respect to the obtaining or maintenance of insurance by the borrower. In the absence of special instructions from the War Department, this may be left to the financing institution. There is no objection, however, to the Reserve Bank's taking such steps as it deems necessary with respect to the maintenance of insurance if for any reason it feels that it is desirable to do so in any particular case.

In the absence of specific instructions from the War Department, the Reserve Bank may, in cases where it deems it appropriate in order to enforce compliance with conditions of the loan agreement, suggest to the financing institution such action as appears necessary in any particular case regarding salaries of executive officers of the borrower, payment of dividends by the borrower, incurring of indebtedness by the borrower, the making of capital expenditures by the borrower, or other similar matters, and in the event that the Reserve Bank and the financing institution cannot agree on a basis which the Reserve Bank believes to be in the best interests of the Government, the matter should be reported to the War Department.

It is possible that the War Department may find it necessary at a later date, in the light of experience with guaranteed loans, to issue additional or supplementary instructions with regard to the responsibilities of the Federal Reserve Banks with respect to the matters discussed above.

Sincerely yours,

(Signed) Robert P. Patterson

Under Secretary of War

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

September 23, 1942

TO ALL FEDERAL RESERVE BANKS:

The Federal Reserve Banks are requested to observe the following instructions in arranging and closing guarantees pursuant to Executive Order No. 9112 on behalf of the Maritime Commission and in following the progress of loans which have been guaranteed. The Maritime Commission does not desire to prescribe rigid instructions governing the question whether a Federal Reserve Bank should ascertain the information or take the actions herein indicated through its own efforts or should rely upon the financing institution to do so, as this matter is one which may well be treated differently at the different Federal Reserve Banks and will be governed by the circumstances of particular cases. A Federal Reserve Bank, however, will not be held responsible by the Maritime Commission if it exercises a discretion in good faith in accordance with the instructions herein given.

Arranging Guarantees

In arranging, executing and completing guarantees, a Federal Reserve Bank should exercise its discretion as to the steps to be taken to see that the conditions of the authorization for the guarantee and the instructions of the Maritime Commission are observed. The Reserve Bank should, of course, carefully prepare the guarantee agreement in accordance with the standard form and such special provisions as may be approved or required in the particular case by the Maritime Commission. All the terms and conditions prescribed by the Maritime Commission either in the identical form prescribed or as modified by the Commission, should be included in summary form in the guarantee agreement. When the Reserve Bank has received the authorization from the Maritime Commission (or is prepared to execute the guarantee, if the case is one in which no advance approval from the Maritime Commission is necessary), it should transmit to the financing institution the guarantee agreement with such written advice of the conditions which are required in connection with the guarantee and such other information as it may deem appropriate. The Reserve Bank should ascertain, or rely upon the financing institution to see, that the conditions prescribed by the Maritime Commission in authorizing the loan are fulfilled and that the loan agreement, if any, assignments of contracts or other collateral, and any standby or subordinaton agreements or other similar documents unless such documents have been previously passed upon by the Maritime Commission do not contain provisions which conflict with any provision of the guarantee agreement or with any condition prescribed by the Maritime Commission in authorizing the guarantee in question. However, where

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

feasible, copies of loan agreements and notes should be obtained from the financing institution and one copy forwarded to the Maritime Commission through the Board of Governors.

The Federal Reserve Bank should exercise its discretion as to whether to examine into the legal sufficiency of mortgages, deeds of trust and other similar collateral. In some cases it may find it desirable to do this before the guarantee agreement is executed, but in many cases, perhaps usually, that may be impracticable, and reliance may then be placed upon a statement of the financing institution. In the latter event the Federal Reserve Bank may deem it to be in the interests of the Maritime Commission in some cases that these matters be looked into after the execution of the guarantee agreement. The Federal Reserve Bank will not be expected to examine into questions of legal incorporation of the borrower or other party, or of the authority of the signing officers of the borrower or other party, unless there are special circumstances which make the Federal Reserve Bank feel that this is necessary in the particular case.

The Federal Reserve Bank may itself ascertain the various matters mentioned above, or, in the exercise of its discretion, may rely upon the financing institution to ascertain them. However, it should not rely entirely upon the financing institution if by reason of the size or character of the financing institution or the quality of its management, the percentage of guarantee, or other considerations, it has reason to believe that the financing institution will not check all the appropriate matters or that the information obtained from the financing institution on this subject may not be entirely adequate. The question as to the circumstances in which the Federal Reserve Bank is justified in relying on the financing institution is left to the determination of the Reserve Bank in its discretion, in the absence of specific instructions in the particular case from the Maritime Commission.

Servicing Guaranteed Loans

In connection with each loan guaranteed pursuant to Executive Order No. 9112, the Federal Reserve Bank should, in the absence of special circumstances, require reports from the financing institution showing the daily net outstanding amounts of each guaranteed loan and such other pertinent information as the Reserve Bank may deem necessary. Such reports should be required at such times and in such form as the Reserve Bank deems appropriate. The Reserve Bank may require such other reports, explanations and information from the financing institution or the borrower, make such visits to the financing institution or the borrower, and take such other steps as in its judgment may be desirable in this connection. The Reserve Bank will be expected

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

to furnish the information requested in the letter addressed to you by the Board of Governors of the Federal Reserve System under date of June 30, 1942 (S-520).

The question as to the extent to which the Federal Reserve Bank should follow the progress of guaranteed loans or rely upon the financing institution to do so is left to the determination of the Reserve Bank in its discretion, in the absence of specific instructions in the particular case from the Maritime Commission. In this connection, consideration should be given the circumstances of the particular case, including the amount and nature of the loan and of the collateral, the size and character of the financing institution and the quality of its management, the percentage of guarantee, information received with respect to the progress of the loan, and other considerations.

In the usual cases the Federal Reserve Bank will not be expected to make or undertake to enforce any requirement with respect to the obtaining or maintenance of insurance by the borrower. In the absence of special instructions from the Maritime Commission, this may be left to the financing institution. There is no objection, however, to the Reserve Bank's taking such steps as it deems necessary with respect to the maintenance of insurance if for any reason it feels that it is desirable to do so in any particular case. In the absence of specific instructions from the Maritime Commission, the Reserve Bank may, in cases where it deems it appropriate in order to enforce compliance with conditions of the loan agreement, suggest to the financing institution such action as appears necessary in any particular case regarding salaries of executive officers of the borrower, payment of dividends by the borrower, incurring of indebtedness by the borrower, the making of capital expenditures by the borrower, or other similar matters, and in the event that the Reserve Bank and the financing institution cannot agree on a basis which the Reserve Bank believes to be in the best interests of the Government, the matter should be reported to the Maritime Commission.

It is possible that the Maritime Commission may find it necessary at a later date, in the light of experience with guaranteed loans, to issue additional or supplementary instructions with regard to the responsibilities of the Federal Reserve Banks with respect to the matters discussed above.

Very truly yours,

(Signed) R. E. Anderson

R. E. Anderson
Director of Finance

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-561

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 1, 1942.

Dear Sir:

It has been brought to our attention that some of the Reserve Banks are not reporting amounts properly in Column 4 on Form F. R. 579.

The amount to be reported in Column 4 should be the sum of (1) the amount outstanding on the loan and (2) any additional amount available to the borrower on date of the report. The following will serve for purposes of illustration:

1. If a straight loan has been advanced in full the amount to be entered in Column 4 will be the same as the amount outstanding, reported in Column 7.

2. If a straight loan is being advanced in instalments and the total amount has not been advanced and no repayments have been made, the amount to be entered in Column 4 will be the total amount authorized to be advanced under the guarantee agreement.

3. If a credit is being advanced as needed and repayments are made in the interim, the amount to be entered in Column 4 will be the amount outstanding as shown in Column 7 plus the difference, if any, between the total amount authorized to be advanced and the total of amounts actually advanced.

4. In the case of a simple revolving line of credit the amount to be reported in Column 4 will be the aggregate amount which under the guarantee agreement may be outstanding at any one time regardless of whether any amount is outstanding at the time.

5. In case a revolving line of credit has a condition attached limiting the total amount that may be advanced under the agreement, the amount to be entered in Column 4 will be the maximum which may be outstanding at any one time or the

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

sum of the amount actually outstanding and the amount which may still be advanced under the agreement, whichever is smaller.

6. In case a revolving line of credit has a condition stipulating that the amount outstanding at any time shall not exceed a designated percentage of the amount of monies due or to become due under the contract or contracts assigned to secure the loan, the amount to be entered in Column 4 will be the amount of the line of credit or, if smaller, an amount equal to the designated percentage of the remaining assigned payments under the assigned contract or contracts. It is assumed that this latter information will be obtained from financing institutions at the end of each month.

If a loan has been paid and the guarantee agreement terminated at the report date, but the loan is listed on Form F. R. 579 inasmuch as there was an amount outstanding at the end of the preceding month, nothing will be reported in Column 4. In this connection it has been suggested that final liquidations of loans under a guarantee agreement or other terminations be explained in the "Comments" column.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS,
EXCEPT RICHMOND

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-562

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 1, 1942.

Dear Sir:

For your information the following letter has been sent in response to an inquiry received from one of the Federal Reserve Banks:

"Reference is made to your letter of September 21, 1942, in which certain questions are raised as to guarantee fees accrued or collected on behalf of the War Department, Navy Department, and Maritime Commission.

"The quarterly period for computation of the guarantee fee should begin with the date of the first advance made in contemplation of the guarantee agreement. If the financing institution makes an advance prior to the actual execution of the guarantee agreement but such advance is made after the approval of the guarantee, the fee would accrue from the date of such advance rather than the date of the guarantee agreement.

"With respect to waiving the collection of nominal amounts of interest or guarantee fees, or disregarding overpayments, in connection with loans that have been repaid in full, it is quite possible that the Federal Reserve Banks may be asked to furnish detailed data as to how the amount of the fees is arrived at, and, if so, it is doubtful whether the General Accounting Office would accept anything less than the exact amount due. Whether you wish to take up with financing institutions nominal differences in amounts due is a matter for determination by your Bank, but in any case it is suggested that the Government be credited with the exact amount of fees due on each guaranteed loan. On an outstanding loan there is, as you assume, no objection to carrying forward from one period for adjustment in the next period a small difference between the amount due and the amount remitted by the financing institution."

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL
FEDERAL RESERVE BANKS,
EXCEPT ATLANTA.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-563

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 2, 1942.

Dear Sir:

The Board has received several inquiries regarding the status under Regulation W of a charge account in which the balance remaining unpaid beyond the tenth day of the second calendar month represents the sale of an article which the buyer has refused to pay for on the ground that the article is defective. In answering this question, three classes of cases need to be distinguished.

In the first place, if the Registrant takes the position that the article is not defective, he should consider the account to be in default.

In the second place, if the article is defective so that the Registrant must correct the defect or replace the article in order to fulfill his obligations under the contract of sale, the regulation does not require him to consider the account to be in default, pending such correction or replacement.

In the third place, if on the tenth day of the second calendar month after the date of sale the question as to whether or not the article is defective has not yet been determined, the Registrant should consider the account to be in default. Of course, if it is subsequently determined that the article is defective, the rule stated in the previous paragraph is applicable.

Whether a particular case falls within one or another of these classes is a question of fact to be determined in the light of all of the surrounding circumstances. If the Registrant has taken the article back, this would ordinarily be an indication that he expects to correct the defect or replace the article. If the article is still in the possession of the customer, however, this would be an indication, in the absence of other evidence, that the article is not defective or that the matter has not yet been determined.

In any case where the account is considered by the Registrant to be not in default, there would be a question as to whether

FOR VICTORY
BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the parties are acting in good faith and with no intent to evade or circumvent the regulation, and therefore in any such case the Registrant for his own protection should see that his records contain an adequate statement of the relevant facts.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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,

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-565

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 8, 1942

Dear Sir:

For your information and guidance in connection with the execution of guarantees on behalf of the United States Maritime Commission, there is enclosed a copy of a letter received by the Board from one of the Federal Reserve Banks raising certain questions as to the interpretation of the Maritime Commission's General Order No. 54 Revised dated August 25, 1942, together with a copy of the Board's reply thereto.

In this connection, there is also enclosed a copy of a letter received from the United States Maritime Commission dated October 5, 1942, stating that the Board's letter in reply to the Federal Reserve Bank's inquiry contains a correct interpretation of the Maritime Commission's General Order No. 54 Revised.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Enclosures 3

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANK OF _____

September 24, 1942.

Board of Governors of the
Federal Reserve System,
Washington, D. C.

Attention: Mr. L. P. Bethea,
Assistant Secretary.

Gentlemen:

Receipt is acknowledged of the Board's letter S-553 dated September 19, 1942, addressed to President _____ and enclosing United States Maritime Commission General Order No. 54 Revised.

This order is not clear to us, and we would therefore appreciate your interpretation of the questions which have arisen.

(1) Paragraph 1) reads in part as follows:

> "Authority is hereby delegated to the Director and the Assistant Directors of Finance to exercise on behalf of the Commission the powers conferred by Executive Order 9112 and to make such further and other delegations of the said authority to other officers and employees of the Commission as they shall deem necessary and proper with respect to guarantees not in excess of One Hundred Thousand Dollars ($100,000.00) for any one loan;"

Does this mean that a guarantee can be issued for as much as $100,000 regardless of the amount of the loan, provided, of course, this does not exceed 90% of the loan, or does it mean that we are authorized to issue guarantees up to 90% on any one loan not exceeding $100,000, and, in this connection, if several loans of $100,000 each are made to the same borrower, could we issue guarantees up to 90% on the several loans?

(2) The remainder of the paragraph quoted above reads as follows:

> "Provided, that the approval of the Commission shall be first had and obtained as to (a) guarantees of loans in excess of Two Hundred and Fifty Thousand Dollars ($250,000.00); (b) guarantees of more than ninety percentum (90%) of the amount of any loan; and (c) purchase orders and all other

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

contracts of whatsoever type providing for an advance payment by the Commission."

Does the above language reading "Provided that the approval of the Commission shall be first had and obtained as to (a) guarantees of loans in excess of Two Hundred and Fifty Thousand Dollars ($250,000.00)" mean that we are authorized to make loans up to $250,000 when the loan has been approved by one of the persons named in the Maritime Commission's letter to all Federal Reserve Banks dated May 28, 1942, or does it mean that we can make these loans with the approval of these individuals up to $100,00; that loans from $100,000 to $250,000 must be submitted to Washington where they can be acted upon by the Director or Assistant Director of Finance without submission to the Maritime Commission?

(3) Does paragraph (c) of the proviso quoted above mean that we are not entitled to issue a guarantee on any loan to a borrower who has received an advance payment by the Commission without submitting it to Washington for approval of the Maritime Commission?

We would greatly appreciate prompt advice on these questions as frankly we are very confused.

Very truly yours,

(Signed)

First Vice President, Federal Reserve Bank of ___

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-565-b

October 8, 1942

Mr. _____, First Vice President
and General Counsel,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of September 24, 1942, raising certain questions regarding the interpretation of General Order No. 54 Revised, which was issued by the United States Maritime Commission, under date of August 25, 1942, and transmitted to you with the Board's letter of September 19, 1942 (S-553).

With respect to your first question, it is our understanding, based upon informal advice received from the Maritime Commission, that the words "with respect to guarantees not in excess of One Hundred Thousand Dollars ($100,000) for any one loan", contained in paragraph 1 of the General Order in question, have reference to the amount of the guarantee rather than to the amount of the loan. In other words, the Director and Assistant Directors of Finance are authorized to make delegations of authority to other officers and employees of the Commission with respect to guaranteed loans where the amount of the guarantee does not exceed $100,000, irrespective of the amount of the loan; except that, as hereafter noted, the amount of the loan may not exceed $250,000. The limitation refers to the individual loan, and, accordingly, permits the issuance of guarantees with respect to several loans to the same borrower where each loan is guaranteed not more than ninety per cent, and where the amount of the guarantee in each instance is not more than $100,000.

On the other hand, the language of the proviso requiring the approval of the Maritime Commission for guarantees of loans in excess of $250,000 refers to the amount of the loan and not to the amount of the guarantee. This proviso makes it necessary to obtain the approval of the Commission in any case in which the amount of the loan to be guaranteed is in excess of $250,000. The Director or Assistant Directors of Finance may delegate to other officers of the Commission authority to approve guarantees of loans in amounts of $250,000 or less, where the amount of the guarantee does not exceed $100,000; and such guarantees may be executed by the Federal Reserve Bank without submitting the matter to any officer or agent of the Maritime Commission for prior approval, subject of course to the requirements of the Commission's instructions

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

of May 7, 1942, and provided the usual production certificate is obtained. Where the amount of the guarantee exceeds $100,000, the guarantee must be submitted to Washington for approval by the Director or Assistant Directors of Finance or, if the amount of the loan exceeds $250,000, for the approval of the Commission.

Paragraph (c) of the proviso, requiring the approval of the Maritime Commission for "purchase orders and all other contracts of whatsoever type providing for an advance payment by the Commission", is not intended to require that a guarantee must first be submitted to Washington for the Maritime Commission's approval merely because the borrower has received an advance payment from the Commission. However, it is understood that the Maritime Commission must hereafter approve any new advance payment made by the Commission to the borrower.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-565-c

UNITED STATES MARITIME COMMISSION
WASHINGTON

October 5, 1942

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

Dear Mr. Cravens:

The letter addressed by Mr. S. R. Carpenter, Assistant Secretary, Board of Governors of the Federal Reserve System, to Mr. _____, First Vice President and General Counsel of the Federal Reserve Bank of _____, _____, replying to Mr. _____'s inquiry relative to the Commission's General Order No. 54 Revised, as of August 25, 1942, is a correct interpretation thereof.

It will be appreciated if you will send copies of Mr. Carpenter's letter to all Federal Reserve Banks.

Very truly yours,

(Signed) W. C. Peet, Jr.

W. C. Peet, Jr.,
Secretary

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-566

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 9, 1942.

Dear Sir:

In order to comply with a request from Mr. B. B. Griffith, Assistant to Director of Finance, United States Maritime Commission, it will be appreciated if hereafter your Bank will use Form No. 1 (Treasury Department form for deposits not subject to check) in depositing guarantee fees due the Maritime Commission from Regulation V loans, instead of Form CD 6599 as requested in our wire of July 20, 1942.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-567

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 10, 1942.

Dear Sir:

The Board has received from the War Department a memorandum dated October 5, 1942, signed by Lieutenant Colonel Paul Cleveland, regarding the amendment of contracts for the purpose of inserting Article 14 of the standard supply contract. A copy of this memorandum is enclosed herewith for your information and guidance in connection with the execution of guarantee agreements pursuant to Executive Order 9112.

In accordance with the War Department's request that advice regarding this matter be transmitted to the liaison officers, there is enclosed an extra copy of the War Department's memorandum, and it will be appreciated if you will transmit this copy to the liaison officer of the War Department in your district.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Enclosures 2

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

WAR DEPARTMENT
Headquarters, Services of Supply
Washington, D. C.

S-567-a

October 5, 1942

MEMORANDUM For the Board of Governors of the Federal Reserve System

SUBJECT: Amendment of contracts to insert Article 14 of standard supply contract.

1. Reference is made to report of liaison officer, Federal Reserve Bank Building, Kansas City, Missouri dated September 24, 1942, paragraph (3) of which raises the question as to whether contracting officers are empowered to extend to the prime contractor the benefits of the standard termination clause (Article 14) by issuing a supplemental contract in the form of a letter or other document and whether it would be in order for liaison officers and the Federal Reserve Banks to insist that this be done when, in their opinion, omission of the cancellation clause has a material effect on the goodness of the credit risk.

2. It is the view of the Legal Branch of the Office of the Director of Procurement that such a change is legal without additional consideration.

3. It is the view of this office that the insertion of this clause in existing contracts may, in many cases, be desirable and liaison officers and the Federal Reserve Banks are hereby authorized, in their discretion, to insist on contractors endeavoring to have this done. Also, liaison officers should endeavor to smooth the way for an amendment by contacting the proper contracting officers.

4. It is also the view of this office that subcontractors should in many cases insist, at the time the subcontract is executed, on the inclusion of a clause in the subcontract no less favorable than Article 14 if the prime contractor has an Article 14 in his contract.

5. Kindly transmit advice of the foregoing to all Federal Reserve Banks and the liaison officers.

(Signed) Paul Cleveland

Paul Cleveland
Lt. Colonel, A. U. S.
Acting Chief
Advance Payment and Loan Branch

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-568

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 12, 1942.

Dear Sir:

There are enclosed photostats of letters received from the War Department and the Navy Department addressed to all Federal Reserve Banks, both dated October 9, 1942, regarding the insertion of certain special conditions in guarantee agreements executed pursuant to Executive Order No. 9112. We have in our records the special conditions enclosed with the above-mentioned letters from the War Department and the Navy Department duly authenticated by Lieutenant Colonel Paul Cleveland of the War Department and by Mr. S. A. Mitchell of the Navy Department. It will be observed that the special conditions enclosed with the War Department's letter are identical with those enclosed with the Navy Department's letter. It is understood that similar conditions are under consideration by the United States Maritime Commission.

As indicated in the enclosed letters, consideration is now being given to a revision of the standard form of guarantee agreement dated May 14, 1942. Accordingly, it will be appreciated if you will submit to the Board, not later than October 31, 1942, such suggestions as you may have, in the light of your experience in this connection, for the clarification and improvement of the standard form of guarantee agreement, including any suggestions you may have regarding the new special conditions which have been authorized for inclusion by the enclosed letters from the Services. It will be very helpful to us if you will suggest specific language to carry out your suggestions wherever this is practicable.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-569

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 14, 1942.

Dear Sir:

It will be recalled that at the Presidents' Conference held during the latter part of September 1942, it was voted that any Federal Reserve Bank should be permitted during the war to hold in safekeeping for nonmember banks Treasury bills and certificates of indebtedness.

The Board has given consideration to this matter and, in view of the authority of Federal Reserve Banks to make advances to nonmember banks on the security of obligations of the United States, the press statement issued by the Board on September 1, 1939, relating to this subject, and other circumstances now prevailing, the Board will offer no objection to a Federal Reserve Bank's holding in safekeeping Treasury bills and certificates of indebtedness for the duration of the war in accordance with action taken at the Presidents' Conference referred to above.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-570

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 15, 1942.

Dear Sir:

The following is a copy of a letter dated today sent to a Federal Reserve Bank regarding Regulation W:

"Your letter of September 15 raises a question under Regulation W which has recently been considered by the Board in connection with credit cards issued by gasoline companies and others. The question relates to the status of a charge account where the buyer has given the seller a note for the amount due and the seller has transferred the note to another Registrant.

"The previous inquiries arose out of a regular course of dealing based on contracts between the various independent dealers and the issuer of the credit cards under which the issuer agrees to purchase all accounts receivable arising out of sales made by the dealers to the holders of the credit cards. The accounts are purchased without recourse (except in the case of fraud, etc.) and in the normal course of events the dealer receives his money immediately and hears nothing further regarding the account.

"The Board took the position that the dealer was the seller, and that consequently he was the 'Registrant' within the meaning of section 5(b). Consequently, if a customer did not pay his bill for articles purchased through a dealer, he could nevertheless purchase listed articles with his credit card from another dealer, and furthermore the issuer of the credit card would not be prevented by the Regulation from purchasing the account arising from the latter sale.

"On the other hand, if the dealer contemplated making further sales of listed articles on credit to the holder of the credit card, he would not be safe in so doing unless he found out from the issuer of the card whether the holder was in default on account of previous purchases from him.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

"In these cases there was no promissory note, but the results would be the same if there were a promissory note, in view of the definitions of 'charge sale' and 'charge account' in sections 2(f) and 2(g). Consequently, if the note were not paid (whether because it had been renewed or for any other reason) within the time prescribed in section 5(c), the account would be in default, unless the note had been renewed under such conditions as to constitute a 'cure' under section 5(d).

"With respect to your second question, the seller could take a renewal note without limitation as to maturity, since he would in effect be merely extending the time of payment of the account. The account would remain in default pending payment. On the other hand, if the bank accepted a renewal note payable to itself, it would in effect be making a loan the proceeds of which it knew would be used to retire a charge account, and the renewal would be subject to the restrictions applicable to such loans."

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-571

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 16, 1942.

Dear Sir:

This refers to the last paragraph of the War Department's letter to all Federal Reserve Banks dated October 9, 1942, with respect to the execution by the Federal Reserve Banks of supplemental agreements to existing guarantee agreements.

In a memorandum to the Board of Governors dated October 9, 1942, the War Department has requested that upon any such modification of an existing guarantee agreement, the supplemental agreement executed by a Federal Reserve Bank on behalf of the War Department should be entitled: "Supplement No. -- to Contract W-- F.C.--".

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-572

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1942.

Dear Sir:

The Board has received from the War Department a memorandum dated October 19, 1942, signed by Lieutenant Colonel Paul Cleveland, relating to the inclusion in loan agreements of provisions relating to the acceptance of advance payments and Government loans by borrowers whose loans have been guaranteed; and a copy of the War Department's memorandum is enclosed herewith. It will be noted that this memorandum supplements and modifies the War Department's memorandum of September 7, 1942, a copy of which was enclosed with the Board's letter of September 12, 1942.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

COPY S-572-a

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

October 19, 1942

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

SUBJECT: Review of guarantee and loan agreements; provisions prohibiting the borrower from undertaking additional war contracts, from consenting to the modification of war contracts, and from accepting advance payments.

1. Reference is made to the War Department's memorandum of September 7, 1942 on the above subject.

2. Paragraph 4 of the above mentioned memorandum is hereby changed to read as follows:

"4. As to advance payments, the following requirements are prescribed by the War Department, and the Federal Reserve Banks are requested to see that all loan agreements and other similar instruments hereafter submitted to the War Department are in conformity with these requirements:

"a. Restrictions against the acceptance of advance payments or government loans in respect of War production contracts will be acceptable to the War Department only if they are worded substantially as follows:

"'1. The borrower will not, without the prior written consent of the financing institution, accept any advance payments or government loans; provided, however, that without such consent the borrower may accept advance payments from the government or government loans in respect of war production contracts if (1) the entire credit provided for hereunder is at the time being used and the financing institution has not, after reasonable opportunity to do so, supplied additional necessary credit to the borrower on substantially the same terms and conditions as are provided in this Agreement (other than changes made necessary by the adjustment of the percentage of guarantee as provided in Section 13 ( ) of the guarantee agreement),

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

and if, in addition, (2) such advance payments or loans have been approved by a Financial Contracting Officer assigned to the Services of Supply, Washington, D.C., as being necessary under allthe circumstances.'

"b. When the above clause is used in loan agreements the Federal Reserve Banks shall, if requested by the Financing Institution, insert a special condition in the Guarantee Agreement reading substantially as follows:

"' If at any time the entire aggregate principal amount of the borrower's indebtedness incurred for moneys borrowed (including funded debt but excluding moneys advanced on Defense Plant Corporation leases or borrowed upon Emergency Plant Facilities Contracts), plus advance payments and loans, if any, from the United States, shall exceed $_____, then upon written request of the Financing Institution from time to time, the percentage of loan specified in Section 1 will be adjusted to such percentage as the Guarantor and the Financing Institution mutually consider fair and equitable under the circumstances, and if the Guarantor and the Financing Institution cannot agree upon such percentage within thirty (30) days after each such request, and such aggregate amount of indebtedness and advance payments and loans shall exceed $_____, then such percentage of guarantee shall be ____%, and, if such aggregate amount shall exceed $_____, such percentage of guarantee shall be _____%, and if such aggregate amount shall exceed $_____, such percentage of guarantee shall be 100%. Any such higher percentage of guarantee shall continue in effect notwithstanding any subsequent reduction in the aggregate amount of such indebtedness and advance payments and loans; and in the event of a prior adjustment, pursuant to section 5, of the percentage of loan specified in section 1, the above percentages shall be increased proportionately to reflect such adjustment.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

"'Unless otherwise agreed by the Guarantor and the Financing Institution, the percentage of guarantee fee to be paid by the Financing Institution in case of an adjustment under this subsection shall be 30% of the loan interest rate on the portion of the loan which the War Department is obligated to purchase if the percentage of the guarantee is in excess of 90% and less than 95%; 35% of the loan interest rate on the portion of the loan which the War Department is obligated to purchase if the percentage of the guarantee is 95% and less than 100%, and 40% of the loan interest rate if the guarantee is increased to 100%.

"'For the purpose of increasing the protection of the financing institution under this subsection the proceeds of any security or of any right or priority (from whatever source realized) accruing in respect of any advance payments or loans by the United States shall be shared by the United States ratably with the loan guaranteed hereunder; except that the foregoing shall not apply to any pledge, purchase money mortgage, or lien taken by the United States upon the balance of such advance payments or loan, and upon specific materials, work in process, finished goods or facilities upon which such advance payments or loans have been expended."

"c. Restrictions against incurring additional indebtedness should always contain an appropriate exception in favor of advance payments or government loans in respect of war production contracts.

"d. Restrictions against encumbrances of the borrower's assets should always contain an appropriate exception in favor of liens or encumbrances arising in connection with advance payments or government loans in respect of war production contracts.

"e. The War Department has no objection to a loan agreement provision restricting the acceptance by the borrower of advance payments on subcontracts."

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

3. For the information of the Federal Reserve Banks and financing institutions, it may be pointed out that at the present time there are only four Financial Contracting Officers, one of whom is the Director of the Fiscal Division, Services of Supply, Washington, D.C., and the other three of whom are assigned to the Advance Payment and Loan Branch, Fiscal Division, Services of Supply, Washington, D. C.

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-573

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1942.

Dear Sir:

For your information there is enclosed copy of a letter written in response to an inquiry from a Federal Reserve Bank with respect to the treatment in earnings and expense reports of Federal Reserve Banks of guarantee fees paid on loans guaranteed pursuant to Executive Order 9112.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-573-a

October 20, 1942

Mr. ___ ___ _____,
First Vice President,
Federal Reserve Bank of _____,
_____,_____.

Dear Mr. _____:

This is in further reference to your letter of August 18, 1942, inquiring as to whether guarantee fees paid by Federal Reserve Banks on advances made by them under Section 13b of the Federal Reserve Act and guaranteed by the War Department, Navy Department, or Maritime Commission should be included with expenses or deducted from gross earnings.

After further reviewing this matter, it seems to us on the whole that such fees should be deducted from gross earnings and it will be appreciated if you will have them so deducted in reports submitted to the Board by your Bank.

Very truly yours,

(Signed) E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

"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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-575

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1942.

Dear Sir:

For the information of your Bank in connection with guarantees pursuant to Executive Order No. 9112, there is enclosed a copy of a letter dated October 28, 1942, received by the Board from the Comptroller of the Currency with respect to the compliance of guaranteed loans with the requirements of exception (10) to section 5200, U.S.R.S. This matter was also the subject of the Comptroller's letter of June 18, 1942, a copy of which was transmitted to you with our letter of June 24, 1942.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY
BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

TREASURY DEPARTMENT
COMPTROLLER OF THE CURRENCY
WASHINGTON

October 28, 1942.

Board of Governors,
Federal Reserve System,
Washington, D. C.

Dear Sirs:

This is in reply to your letter dated October 23, presenting two inquiries with respect to loans covered by so-called guarantees executed pursuant to Executive Order No. 9112.

The first inquiry is whether the Guarantee Agreement constituting Exhibit D of the General Motors Corporation Credit Agreement dated October 15, 1942, complies with the requirements of exception 10 to section 5200 of Rev. Stat. of 1873, as amended (U.S.C. title 12, sec. 84). It is the opinion of this office that this Guarantee Agreement comes within the purview of exception 10 and the definition of the term "unconditional" as used therein.

The second inquiry is whether guarantee agreements in the standard form of May 14, 1942, to which have been added Conditions (A) to (O), inclusive, in the form accompanying the War Department's letter of October 9, 1942, a copy of which you enclosed, would comply with the requirements of exception 10 to section 5200. It is the opinion of this office that such guarantee agreements would come within the purview of exception 10 and the definition of the term "unconditional" as used therein.

Although this question is not presented in your letter, it is appropriate to mention that in any case in which a guarantee agreement required the proceeds of the loan to be used for one or more specified purposes, uncertainty would exist regarding the applicability of exception 10, unless the guarantee agreement also included Optional Condition (N) or a substantially equivalent provision.

Very truly yours,

(Signed) Preston Delano

Preston Delano,
Comptroller of the Currency.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-576

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 30, 1942.

Dear Sir:

There is enclosed a photostat of a letter dated October 27, 1942, which the Board has received from the United States Maritime Commission addressed to all Federal Reserve Banks, regarding the insertion of certain special conditions in guarantee agreements executed pursuant to Executive Order No. 9112. We have in our records the special conditions enclosed with the above-mentioned letter from the Maritime Commission duly authenticated by Mr. W. C. Peet, Jr., Secretary, United States Maritime Commission; and a mimeographed copy of these special conditions is enclosed herewith. It will be observed that the special conditions enclosed with the Maritime Commission's letter are identical with those which were enclosed with letters addressed to all Federal Reserve Banks under date of October 9, 1942, by the War Department and the Navy Department.

Your attention is called to the fact that, while the Maritime Commission's letter is substantially the same as the letters addressed by the War and Navy Departments to the Federal Reserve Banks on October 9, 1942, the last paragraph of the Maritime Commission's letter authorizes the Federal Reserve Banks to execute supplemental agreements containing the special conditions without further submission of the matter to the Maritime Commission for approval, "provided that the inclusion of such conditions in no way alters the original intent of any executed guarantee agreements." We have had informal discussions with a representative of the Maritime Commission as to the meaning of this limitation; and we have been

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

advised that the language above quoted is intended to have no application except with respect to a particular case in the Ninth Federal Reserve District and may therefore be disregarded by all Federal Reserve Banks except by the Federal Reserve Bank of Minneapolis in connection with that particular case.

We are furnishing a copy of this letter to the Maritime Commission.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures 2

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
(Enclosures with addressed copies only.)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-577

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1942.

Dear Sir:

The following is a copy of a letter sent today to a Federal Reserve Bank regarding Regulation W:

"This refers to your letter of October 20, 1942 asking four questions in connection with sections 4(e) and 5(h) of Regulation W added by Amendment No. 9. The questions arise out of a case where three coats are sent on approval to a customer with the understanding that the customer will select one coat and return the others.

"Your first question is whether the store should ascertain at the time the article is sent out whether the customer expects to pay cash, or expects to charge the coat, or expects to pay for it in instalments. You have informed the store that it should do so, and the Board agrees.

"Your second question is what down payment should be obtained if the coats are delivered in anticipation of an instalment sale. The answer is that the customer expects to buy only one coat, and therefore, only one coat is delivered 'in anticipation' of a sale. Therefore, the customer is required to deposit only an amount equal to the down payment which would be required on the most expensive of the three coats.

"Your third question deals with the case where the three coats are delivered on approval and the customer states that she expects to charge the coat which she selects. While the usual practice would probably be to charge all three coats to the customer's account at the time of delivery and to cancel the charge on two of them when returned to the store, section 5(h) only requires the store to charge one of them to the account for the reason discussed in the preceding paragraph. However, when the customer makes her selection and decides to keep

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the coat, she states that she wishes to place the sale on an instalment basis, and you ask whether a down payment should be obtained.

"In such a case, the customer does not carry out the anticipation contemplated by section 5(h) and her failure to do so operates as a cancellation of the transaction there covered. Consequently, there is a new transaction, namely, an instalment sale, which is subject to all of the provisions of the Regulation applicable to such a sale, including the requirement that a down payment be obtained. Of course, the original delivery on approval without a down payment would have been a violation of sections 4(e), 5(a) and 11(a) if there had been any agreement or understanding, express or implied, that the coat would eventually be sold on instalments.

"Your fourth question relates to a case where the customer, having selected one of the three coats which were delivered on approval, returns it for alteration. Your question is whether the date of sale for default purposes is the date of delivery on approval or the date on which the coat is returned to the customer after alteration. This appears to be the same kind of a case as the second case discussed in S-563, and consequently the date of sale for purposes of determining whether or not the account is in default is the date on which the article is returned to the customer after alteration."

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-578

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1942

Dear Sir:

There is enclosed for your information and guidance a copy of a letter which the Board has received from the Navy Department dated October 31, 1942, identified by the number 340PM10311008, signed by Mr. S. A. Mitchell, Chief of Finance Section, regarding the insertion of Optional Condition (N) and of Optional Condition (L) in guarantee agreements executed on behalf of the Navy Department, and with respect to a modification in the standard form of authorization.

In this connection, the Navy Department has requested the Board to advise the Federal Reserve Banks that on and after October 31, 1942, and until instructed to the contrary by the Navy Department, authorizations for the execution of guarantee agreements will include a footnote, referring to the words "standard form dated May 14, 1942" where they occur in the form of authorization, in the following language:

> "Subject to the instructions contained in the letter of October 31, 1942 from the Navy Department to the Federal Reserve Banks, 340PM10311008."

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-578-a

NAVY DEPARTMENT
WASHINGTON

No. 340PM10311008

October 31, 1942

From: S. A. Mitchell
To: E. L. Smead

Subject: Standard Form of Authorization

The Comptroller of the Currency has suggested that optional condition (N) be included in all guarantee agreements where the proceeds of the loan covered by the guarantee are to be used for one or more specified purposes. Since the use of the proceeds of loans guaranteed by the Navy Department is restricted in practically every instance, the Navy Department requests that optional condition (N) be included in all guarantee agreements, along with the mandatory conditions.

The Federal Reserve Banks are requested not to include optional condition (L) unless the loan has been recommended by the Federal Reserve Bank as being sound from a credit standpoint, and unless the inclusion of such condition has had the prior approval of the Navy Department. The Federal Reserve Banks, as authorized on October 9, 1942, may include in the guarantee agreement any of the optional conditions other than (L) which may be desired by the financing institution.

The Federal Reserve Banks are requested not to agree to the inclusion of language other than that which is substantially contained in the mandatory and optional conditions in the guarantee agreement, as it is the desire of the Navy Department for the guarantee agreements to be standard insofar as possible.

The Navy Department is discontinuing the insertion of instructions with respect to the use of mandatory and optional conditions in authorizations as of this date. This letter is to be included in future authorizations to the Federal Reserve Banks to guarantee in behalf of the Navy Department, by reference.

(Signed) S. A. Mitchell
S. A. Mitchell
Chief of Finance Section

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-579

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 3, 1942.

Dear Sir:

The Board has received from the War Department a memorandum dated October 31, 1942, signed by Lieutenant Colonel Paul Cleveland, Chief, Loan Section, Advance Payment and Loan Branch, regarding the use of Optional Condition (N), in view of the position taken by the Comptroller of the Currency in his letter of October 28, 1942, a copy of which was transmitted to you with our letter of October 29, 1942 (S-575). A copy of the War Department's memorandum is enclosed for your information and guidance.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-579-a

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

October 31, 1942

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

SUBJECT: Optional Condition "N"

In view of the recent decision of the Comptroller of the Currency in reviewing the General Motors Loan, it is recommended that in all cases where a limit is placed on the use of funds by the War Department optional condition "N" be used.

(signed) Paul Cleveland
Paul Cleveland
Lt. Colonel, A. U. S.
Chief, Loan Section
Advance Payment and Loan Branch

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-580

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 4, 1942

Dear Sir:

The Board has received several inquiries regarding the retention by Registrants of records and papers relating to credits within the scope of the Executive Order of August 9, 1941, and Regulation W. These inquiries concern the records and papers which should be preserved and the date when they may be destroyed, and bring into question what action the Board expects to take under sections 12(h) and 12(i) of the Regulation and the sufficiency of those sections in their present form.

In studying this matter, consideration was given to the preparation of a letter to all Federal Reserve Banks setting forth a general rule sufficiently flexible to cover all of the many classes of businesses affected, since it was deemed inadvisable to attempt to specify in detail all of the records and papers that should be preserved. However, the disposition of this problem and the security of the enforcement program in general made it appear desirable that sections 12(h) and 12(i) be amended. Accordingly, there is enclosed herewith a proposed Amendment No. 10 to the Regulation on which the Board would like your views and comments. Your promptness in forwarding replies will be much appreciated.

Briefly, you will note that the proposed section 12(h) prescribes a general rule requiring every Registrant to preserve, for a period of two years after the date of the last payment received on any credit within the scope of the Executive Order, such records and papers as are relevant to establishing whether or not the credit was in conformity with the Regulation. The two-year period, which is new, conforms with a similar requirement in the small loan laws of many States and would seem to be adequate for an effective enforcement program. Otherwise, such general rule merely clarifies what may be regarded as the substance, in this connection, of present sections 12(h) and 12(i).

The proposed section 12(i) retains the provision now in section 12(h) for such statistical reports as the Board may call

FOR VICTORY
BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

for. In addition, however, such proposal spells out in more detail than present section 12(i) the Registrant's obligation to permit inspections of his business operations, including his records and papers, by representatives of the Board or the Federal Reserve Banks, and the Board's authority to require testimony and the production of records and papers in determining whether or not a Registrant has complied with the provisions of the Regulation.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

PROPOSED AMENDMENT NO. 10 TO REGULATION W.

Regulation W is hereby amended, effective _____, by striking out subsections (h) and (i) of section 12 and substituting the following:

"(h) Preservation of Records. - Every Registrant shall preserve, for a period of two years after the date of the last payment received on any extension of credit within the scope of the Executive Order, such books, accounts, records, and other papers (including any statements required by or obtained pursuant to this Regulation) as are relevant to establishing whether or not such extension of credit was in conformity with the requirements of this Regulation, except that the Registrant may preserve photographic reproductions in lieu of such books, accounts, records, or papers.

"(i) Reports, Inspections and Production of Records.- Every Registrant shall make such reports as the Board may from time to time require as necessary or appropriate for enabling it to perform its functions under the Executive Order. Every Registrant shall permit the Board or any Federal Reserve Bank, by its duly authorized representatives, to make inspections of the Registrant's business operations, including inspections of the books, accounts, records, and other papers described in section 12(h), for the purpose of determining whether or not the Registrant has complied with the requirements of this Regulation; and, when ordered to do so by the Board, every Registrant shall furnish such information, under oath or otherwise, including the production of the books, accounts, records, and other papers described in section 12(h), as the Board may deem necessary or appropriate for such purpose."

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-581

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1942.

Dear Sir:

The following is a copy of a letter sent today to a Federal Reserve Bank regarding Regulation W:

"Receipt is acknowledged of your letter of October 30 enclosing copy of a letter from Mr._____, Supervisor of the Credit Union Division of the _____ State Banking Department, together with an article entitled 'A Cushion of Cash--How to Get it' referred to therein.

"The article presents the question whether section 8(b) of Regulation W exempts a loan made by a credit union, secured by its shares, to enable the borrower to purchase such shares, if there is an understanding that the borrower will be permitted to withdraw any portion of the share account, without making an equivalent payment on the loan, if the credit union should feel that such action was warranted by the circumstances, as, for example, where the loan was otherwise adequately secured.

"The Board agrees with you that an arrangement of the type described would be a violation of the Regulation. In view of the dual purpose of the loan it could not properly be considered as a loan 'for the purpose of purchasing' the shares within the meaning of section 8(b), and if it was originally made for the purpose of purchasing such shares but with an understanding that it might later be used for other purposes, the arrangement would violate section 11(a)."

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-582

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 10, 1942.

Dear Sir:

Several questions have been raised by Federal Reserve Banks regarding the extension to employees entering various serv-. ices or activities of the benefits under the program for uniform treatment of employees of the Federal Reserve Banks who are called into military service. The Board's views with regard to the various questions are summarized as follows:

1. Members of the WAVES and WAACS are considered as being on active military service. Women who leave the employment of a Reserve Bank or the Board to join the WAVES or the WAACS are entitled to the same benefits under the uniform program as are extended to male employees entering active military service.

While the WAACS are not at this time authorized to purchase National Service Life Insurance, the Reserve Banks and the Board should stand ready to reimburse them to the extent provided in the uniform program if the WAACS should be authorized to purchase such insurance.

2.a. Employees of the Reserve Banks and the Board leaving to enlist in Class V-1 of the United States Naval Reserve or in the Army Enlisted Reserve Corps to pursue a college education at their own expense while on an inactive military status in Classes V-1, V-5, or V-7 of the Naval Reserve or in the Army Enlisted Reserve, are not entitled to any of the benefits extended under the uniform program to employees leaving to enter upon active military duty.

b. Employees who, while in an inactive military status in Classes V-1, V-5, or V-7 of the United States Naval Reserve or in the Army Enlisted Reserve, continue in the employment of a Reserve Bank or the Board until called into active military service are, of course, entitled, when called into active military service, to the usual benefits extended under the program to employees leaving to enter upon active military duty.

3. Because of the hazards of the Merchant Marine and its contribution to the war effort, the Reserve Banks are authorized to

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

extend to an employee entering the United States Maritime Service of the War Shipping Administration or the United States Merchant Marine, such of the benefits under the program as the Reserve Bank feels justified in the circumstances. (One employee of the Board was recently enrolled in the United States Maritime Service of the War Shipping Administration. In that case, the Board extended to him all of the benefits under the uniform program except reimbursement for premiums on National Service Life Insurance. Members of the United States Maritime Service or the Merchant Marine are not authorized to purchase National Service Life Insurance, but the operators of the ships take out War Risk Insurance on the lives of the crew at no cost to the employees.)

4. Benefits under the program do not extend to employees leaving to serve with the Red Cross or comparable agencies.

It is hoped that the above interpretations and authorizations cover the situation. If they do not, however, the Board will be glad to have your views.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-583

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 12, 1942.

Dear Sir:

The Board has received several inquiries regarding section 10(a)(2) of Regulation W, and these inquiries are discussed below.

The first inquiry is whether a Registrant may discount and receive payments upon an obligation which prior to discounting has been renewed or revised pursuant to the provisions of section 10(a)(2) so as to have a maturity which would not have been permissible under the Regulation in the first instance.

The Board is of the opinion that section 3(a)(3) would not prevent such action by the Registrant, since the renewal or revision is one which is expressly authorized by the Regulation.

The second inquiry relates to the terms on which a Registrant may make a loan to a debtor to retire his instalment indebtedness to another creditor where the maturity of the indebtedness has already been extended by the other creditor under section 10(a)(2).

The Board is of the opinion that the Registrant may make such a loan on the same terms as the obligation being retired. The obligation being retired is in conformity with section 10(a)(2); and section 10(c) permits a lender, in making a loan to retire a regulated instalment credit, to extend terms as liberal as the terms of the credit being retired if those terms are in conformity with the Regulation.

The third inquiry is whether a Registrant who has purchased a delinquent instalment obligation and has exercised a bona fide collection effort, may then revise the obligation under section 10(a)(2) on terms not initially permissible.

The Board is of the opinion that this may be done, but it should be emphasized that the change in ownership of the paper

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

does not change the responsibility of the holder to make every effort to collect it in accordance with its terms. Furthermore, the revision must not be made on terms longer than are necessary in good faith for the Registrant's own protection.

The theory of section 10(a)(2) is that an adjustment with the customer should not be prevented if that is the only feasible way in which the credit can be collected. Any such adjustment must be the last resort (except, of course, litigation) and a measure to be taken only after other means of collection have been exhausted.

Each of the foregoing points with respect to section 10(a)(2) is consistent with the principle of that section, namely, that it may be applied only for the protection of the Registrant who holds the obligation which is in default and who is making the adjustment. If section 10(a)(2) is applied in accordance with the principles herein expressed, it is not believed that any undue weakening of the Regulation will result. On the other hand, if you should encounter any evidence suggesting that Registrants may be using this section improperly, we shall appreciate information as to such situations as well as suggestions as to any action, including an amendment, that you may consider desirable.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-584

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 12, 1942.

Dear Sir:

As you were advised in the wires from Secretary Morgenthau and from me dated November 11, it is contemplated that the activities of the Victory Fund Committees will be greatly expanded.

In connection with this expanded program I should like to call attention to the meeting held with the Presidents of the Federal Reserve Banks at the Carlton Hotel on September 28 to discuss activities of the Victory Fund Committees. At that meeting I discussed at some length the program of the Committees and expressed the opinion that since the System is vitally interested in the success of the selling program the Federal Reserve Banks would be justified in assuming certain expenses in connection with the program. It is contemplated that expenses of the kind referred to in the letter from Mr. Bell, Under Secretary of the Treasury, dated September 19, 1942, will be reimbursed by the Treasury Department although it now appears that to reimburse the Federal Reserve Banks in full for the expanded activities it will be necessary to obtain a deficiency appropriation. It is understood this will be asked for in due course.

There are, however, certain expenses which do not come within the terms of Mr. Bell's letter. In this connection, I referred, at the meeting at the Carlton Hotel, to the fact that the Federal Reserve Banks had been able to facilitate the work of the Committees by providing luncheons and dinners at meetings and conferences at the Federal Reserve Banks and Branches and at other points throughout their districts. The Board concurs in my statement that the Federal Reserve Banks are justified in assuming the expenses connected with such meetings when in the opinion of the Presidents to do so would help to make the Government's program a success.

It was intended following the meeting at the Carlton Hotel to have a committee review the question of expenses connected with the

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Victory Fund program and to make suggestions with respect to expenses that might be absorbed by the Federal Reserve Banks. In view of the urgency of the expanded program, however, and of the difficulty of getting the committee together, it has been thought best to get a letter out to you promptly so that you would be informed of the views of the Board at the beginning of the expanded program.

It will be appreciated if you will keep the Board advised currently of important developments in connection with the expanded Victory Fund program.

Very truly yours,

M. S. Eccles,
Chairman.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-585

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 13, 1942.

Dear Sir:

For your information and guidance there are enclosed copies of a memorandum dated November 7, 1942, received by the Board of Governors from Lieutenant Colonel Paul Cleveland, of the War Department, with reference to the use of optional condition (L). In accordance with Colonel Cleveland's request, it will be appreciated if you will furnish a copy of this to the liaison officer of the War Department in your district.

We are also informally advised by a representative of the Maritime Commission that optional condition (L) should not be used in connection with guarantees executed on behalf of the Commission without first submitting the matter to Washington for approval.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures 3

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-585-a

WAR DEPARTMENT
Headquarters, Services of Supply
Washington, D. C.

November 7, 1942

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

SUBJECT: Use of Optional Condition "L".

1. Reference is made to telegram dated November 6, 1942 to the Board of Governors from the Federal Reserve Bank of Chicago which reads in part as follows:

> "Is it necessary to submit recommendations to the War Department with respect to optional condition (L) in instances where loan is less than $100,000?"

2. Optional Condition "L" may not be used without the prior approval of a financial contracting officer whether the loan is above or below $100,000.

3. In general, it is the policy of the War Department not to approve the use of Optional Condition "L" except in the case of very large loans to very sound credits where there is little likelihood of a disagreement subsequently arising between the War Department and the borrower.

4. In view of the fact that this condition has appeared in several loans guaranteed under delegated authority, it is requested that a copy of this memorandum be forwarded to all Federal Reserve Banks and liaison officers.

War Department of the United States

By: (Signed) Paul Cleveland

Paul Cleveland
Lt. Colonel, A. U. S.
Chief, Loan Section
Advance Payment & Loan Branch

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-536

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 14, 1942

Dear Sir:

The Board has received an inquiry from one of the Federal Reserve Banks stating that memorandums from the Navy Department, in connection with Regulation V loans, signed by Herman Jones, Jr. and Robert L. L. McCormick have been accepted as official communications although no official advice has been received that these individuals have been authorized to sign on behalf of the Navy Department.

You will find enclosed a copy of a letter, dated November 9, 1942, addressed to the Board by Mr. Sidney A. Mitchell, Chief of Finance Section, Navy Department, advising that Mr. Jones and Ensign McCormick are attached to the Finance Section and that although they have not been delegated by the Navy Department to issue authorizations for guaranteed loans, in all other matters, communications from them should be accepted as being from the Finance Section.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

FOR VICTORY
BUY UNITED STATES WAR BONDS AND STAMPS

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-586-a

NAVY DEPARTMENT
Washington

November 9, 1942

Dear Mr. Bethea:

This will acknowledge your letter of November 7, 1942.

Mr. Herman Jones, Jr. has been attached to the Finance Section of the Office of Procurement and Material of the Navy Department for some months. Ensign Robert L. L. McCormick is also on duty with the same Section.

So far authority has not been delegated to them to authorize guarantees of loans made pursuant to Executive Order No. 9112 but in all matters other than such a delegation communications from them should be accepted as being from this office.

Yours very truly,

(Signed) S. A. Mitchell

S. A. Mitchell
Chief of Finance Section

Mr. L. P. Bethea, Assistant Secretary
Board of Governors of the
Federal Reserve System
Washington, D. C.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-587

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 14, 1942

Dear Sir:

Upon request of the Federal Reserve Bank of Dallas, the Board of Governors of the Federal Reserve System has approved the following change in the Inter-district Time Schedule for cash items:

	From	To
El Paso to Los Angeles	2 days	3 days

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-588

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 17, 1942.

Dear Sir:

Reference is made to the third paragraph of the Board's letter S-521 dated June 30, 1942, regarding applications for guarantees by the Navy Department under the provisions of Regulation V.

It will be helpful to us if letters transmitting the first copies of applications for loans are forwarded in duplicate and if they contain a list of any documents accompanying the application. It will also be helpful if when you forward the second copy of an application, together with your investigation report, recommendation, etc., you will refer to your previous letter with which you forwarded the first copy of the application.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-589

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 20, 1942.

Dear Sir:

The discussions that have been had with the presidents of most of the Federal Reserve Banks with branches relative to the desirability of increasing the powers and functions of the more important branches indicate that in some cases the Banks may wish to have a vice president or other officer of the Federal Reserve Bank in charge of a branch instead of a managing director. In order to make possible such an arrangement the Board has revised its regulations relating to branches of Federal Reserve Banks and a copy of the amendment is enclosed herewith.

The above-mentioned amendment will be incorporated in the regulations relating to branches which will be reprinted for inclusion in the Federal Reserve Loose-Leaf Service.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-589-a

PROPOSED AMENDMENT TO REGULATION RELATING TO

BRANCHES OF FEDERAL RESERVE BANKS

1. The first sentence of paragraph (c) of section 3 is amended to read as follows:

"Where a Vice President or other officer (who is not a Director) has not been appointed as active manager of a branch, one of the directors appointed by the Federal Reserve Bank shall be designated by it as the active manager of the branch."

2. The last sentence of paragraph (d) of section 3 is amended to read as follows:

"In order to make practicable an orderly rotation of branch directorships, the terms of directors, other than the Managing Director, shall be so arranged that the term of one director appointed by the Board of Governors shall expire at the end of each year and the term of at least one director appointed by the Federal Reserve Bank shall expire at the end of each year."

3. The following new paragraph is inserted before the existing paragraph of section 4:

"(a) Vice President or Other Officer in Charge of Branch.--Subject to the approval of the Board of Governors, a Federal Reserve Bank may discontinue the office of Managing Director of a branch and, in lieu thereof, may designate from time to time a Vice President or other officer of the Federal Reserve Bank as the active manager of the branch. Such Vice President or other officer shall not be a member of the Board of Directors of the branch. The discontinuance of the office of Managing Director shall not of itself have the effect of reducing the number of directors of such branch."

4. The existing paragraph of section 4 is designated as paragraph "(b)" and the first two sentences thereof amended to read as follows:

"Other Officers.--The Federal Reserve Bank shall appoint such officers for each branch, in addition to the active manager of the branch, as the bank from time to time deems necessary. Such officers shall perform such duties as may be prescribed, with the approval of the Federal Reserve Bank, by the Board of Directors of the branch or by the Managing Director or Vice President or other officer in charge."

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-590

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 23, 1942.

Dear Sir:

For your information, there is enclosed a copy of a letter received by the Board from Mr. C. B. Upham, Deputy Comptroller of the Currency, dated November 19, 1942, enclosing a copy of a letter from Mr. L. H. Sedlacek, Deputy Comptroller, to Mr. Gibbs Lyons, District Chief Bank Examiner, New York City, dated November 12, 1942, regarding the applicability of Exception 10 to Section 5200 of the Revised Statutes to participations in loans covered by guarantees or take-over commitments pursuant to Executive Order No. 9112.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures 2

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-590-a

TREASURY DEPARTMENT

COMPTROLLER OF THE CURRENCY

Washington

Address Reply to
"Comptroller of the Currency"

November 19, 1942

Board of Governors
Federal Reserve System
Washington, D. C.

Attention: Mr. George Vest

Dear Sirs:

Pursuant to the conversation between you and our Mr. Robertson with respect to loans covered by governmental guaranties or take-over commitments, there is attached hereto for your information a copy of a letter directed to Mr. Gibbs Lyons, District Chief National Bank Examiner, New York City.

Yours very truly,

(Signed) C. B. Upham

Deputy Comptroller

Enclosure

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

COPY S-590-b

November 12, 1942.

Mr. Gibbs Lyons,
District Chief National Bank Examiner,
525 Federal Reserve Bank Building,
New York, New York.

Dear Mr. Lyons:

This is in reply to your letter dated October 22, relating to participations in loans covered by governmental guaranties or take-over commitments. In the situation you present, "the participating bank would not be managing the loan and would not be the bank to whom the guarantee was issued", but would merely receive from the managing bank a letter certifying that it has a specified participation in the loan.

Exception 10 to section 5200 of Rev. Stat. of 1873, as amended (U. S. C. title 12, sec. 84), is based upon the principle that to the extent that a loan is covered by a take-over commitment which cannot be nullified by any contingency not within the control of the lending bank, the loan is freed from the usual risk element, and therefore need not be subjected to the ordinary 10% limitation. As stated in paragraph (b) of the definition of the term "unconditional", the bank "must be in a position, at any time during the life of the loan, to demand performance of the agreement and to receive payment in cash, in full, within sixty days." Consequently, it is essential that the participating bank have the independent power to require take-over of the guarantied part of its portion of the loan, at any time. In the absence of this power, the guaranty would not meet the requirements of exception 10, as far as the participating bank is concerned.

In our opinion, the guaranty would also be defective, from the point of view of exception 10, if its continuance in effect were to depend upon action or inaction by the managing bank, beyond the control of the participating bank. For example, where there is no participation problem, the inclusion of a provision that the guaranty will terminate if the bank sues the borrower without prior consent of the guarantor, would not prevent the guaranty from being unconditional. (See example (5) in definition of "unconditional".) On the other hand, if a participating bank's protection through the guaranty would be wholly or partially lost in the event the managing bank, solely of its own volition, were to sue the borrower without having obtained the required prior consent of the guarantor, the protection to the participating bank would be subject to defeasance by a contingency not within its control, and consequently the guaranty would not be unconditional as to that bank.

It is believed that problems of this sort can be worked out in most cases through comparatively simple modifications in procedure. Under

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the General Motors Corporation Credit Agreement and Guarantee Agreement, for example, the borrower's obligations are to be evidenced by notes in varying amounts running to the participating banks individually, and the guaranty also runs to the individual banks and consequently may be exercised by each, independently of any action by others. Furthermore, the Committee which was set up in that case to expedite operations was given no powers which could result in loss of guaranty protection to any participating bank through acts or occurrences beyond its own control.

Yours very truly,

(Signed) L. H. Sedlacek

Deputy Comptroller

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-591

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 24, 1942.

Dear Sir:

Future reports on Forms F. R. 417 and 417 a, applications for industrial advances and commitments, may be submitted as of the end of each month instead of weekly as at present. Until further notice, however, please wire as of the 15th of each month figures for number and amount of applications for advances and commitments combined received and approved by the Reserve Bank since date of the last monthly report. The forms will not be revised at this time, and, accordingly, it will be appreciated if the headings on the forms, and the "Current Week" column on Form F. R. 417, are appropriately amended when submitting reports. In the first monthly report, as of November 30, please enter in the current columns of Form F. R. 417 figures for the period between the last weekly report submitted, e.g., November 18, and the end of the month.

Reports on Form F. R. 508a, the report of action taken on applications, submitted in accordance with the Board's letter of October 17, 1939 (S-187), may be discontinued. The list of industrial advances and commitments outstanding, now submitted quarterly, may be submitted semiannually hereafter as of the end of March and September.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-592

TELEGRAM

November 25, 1942.

(Addressed to the Presidents of all Federal Reserve Banks)

The Board has received several inquiries with reference to the application of Regulation W to credit sales of toys and games.

The question concerning toys arises where the toy is a copy on a smaller scale of an article which is listed in section 13(a). The Board has ruled that such a toy would be a listed article only if it is a working model of practical use and differentiated from a regular article chiefly by its smaller size, as in the case of a small phonograph capable of playing regular records. Doll furniture would not be subject to the regulation while small furniture for actual use by children would be. A small bicycle also would be subject to the regulation whereas a tricycle, not being listed at all, would not be so subject. The question concerning games is whether children's games are included in item 33 of section 13(a) -- "Sports', athletic, outing, and games' equipment". The Board has ruled that a game designed principally for adults would be so included even though sometimes purchased for children. On the other hand, games designed principally for children would not be included. On this basis, chess, playing cards, and such items as the regular larger sizes of croquet sets would be subject to the regulation.

(Signed) L. P. Bethea

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-593

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 27, 1942.

Dear Sir:

This refers to the Board's letter of October 1, 1942, (S-562), with respect to the computation of guarantee fees payable to the Guarantor in cases where the first advance is made by the Financing Institution prior to the actual execution of the guarantee agreement. A question has arisen as to the interpretation of the Board's letter in view of the provisions of section 11 of the standard form of guarantee agreement dated May 14, 1942.

Under the provisions of the standard form of guarantee agreement, the Financing Institution's obligation for the payment of guarantee fees would not ordinarily begin before the date of execution of the guarantee agreement. In cases where for any reason it is necessary to make an advance a day or two prior to the execution of the guarantee agreement and this advance is to be covered by the terms of the guarantee, it may be possible to provide by appropriate language in the guarantee agreement either that the effective date of the agreement shall be the date of the advance or that the advance in question shall be covered by the guarantee agreement, in which event the computation of the guarantee fee would begin with the date of the advance. Unless this is done, however, the guarantee fee should not cover any period prior to the date on which the Guarantor becomes obligated to purchase the specified percentage of the loan, which ordinarily will be the date of execution of the guarantee agreement.

We have conferred with the War Department, Navy Department, and Maritime Commission with respect to this matter, and they are in agreement with the views expressed above.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-594

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 3, 1942

Dear Sir:

In response to the Board's letter of September 17, 1942 (S-552), all of the Federal Reserve Banks forwarded lists of forms used by them for submission to the Division of Statistical Standards of the Bureau of the Budget. Some of these lists included forms of the Board of Governors, and in two cases forms of the Treasury, which are sent out by the Federal Reserve Banks.

Advice of the numbers assigned by the Budget Bureau to forms of the Board of Governors and the Reserve Banks has been received, and a list of the forms submitted by your Bank, exclusive of any Board or Treasury forms, and the approval numbers assigned is being sent to you with this letter. A list of the forms of the Board of Governors and the approval numbers assigned thereto is also enclosed; this list includes forms which are printed by the Reserve Banks in accordance with a standard form prescribed by the Board.

The approval numbers assigned to the forms shown on both of these lists are without expiration dates, and the Bureau of the Budget has suggested that the approval numbers be placed in the upper right-hand corner of the applicable forms in accordance with the following pattern:

Form Approved
Budget Bureau No.

All of the forms printed by the Board hereafter will carry the appropriate approval number in this manner, and it is suggested that the Federal Reserve Banks follow the same procedure with respect to their own forms as well as the forms prescribed by the Board but which are printed by your Bank.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Enclosures 2

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS

Form Number	Title of Form	Budget Bureau Approval Number
437	Annual Report--Holding Company Affiliates to Board of Governors of the Federal Reserve System	55-R001-42
F.R.563-a	Registration Statement (under Regulation W)	55-R002-42
F.R.240	Report of Member Firm of National Securities Exchange	55-R003-42
F.R.105	Report of Condition of State Bank Member	55-R004-42
F.R.105e	Report of Condition of State Bank Member (Publisher's Copy)	55-R004-42
F.R.105b	Report of Loans and Advances to Affiliates	55-R007-42
F.R.107	Report of Earnings and Dividends of State Bank Member	55-R010-42
F.R.220	Report of Affiliate or Holding Company Affiliate	55-R011-42
F.R.220a	Report of Affiliate or Holding Company Affiliate (Publisher's Copy)	55-R011-42
F.R.573	Debits to Deposit Accounts Except Interbank Accounts	55-R013-42
F.R.416	Report of Condition of Member Banks in Selective Cities	55-R014-42
F.R.467	Interest Rates Charged on Commercial and Industrial Loans	55-R015-42
F.R.585	Industrial Banking Company Report	55-R016-42
F.R.585a	Personal Finance Company Report	55-R017-42

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Form Number	Title of Form	Budget Bureau Approval Number
F.R.585b	Federal Credit Union Report	55-R018-42
F.R.585c	State Credit Union Report	55-R019-42
F.R.585d	Retail Instalment Credit Report	55-R020-42
F.R.571	Commercial Bank Report of Consumer Instalment Credit	55-R022-42
F.R.414	Computation of Reserve to be Carried with the Federal Reserve Bank by Member Banks	55-R159-42

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-595

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 30, 1942.

Dear Sir:

Enclosed herewith is a copy of a letter written by the Treasury Department to a State member bank with respect to the establishment of a banking facility at a military reservation by the member bank under its designation by the Treasury as a Depositary and Financial Agent of the Government.

It is understood that the letter to the State member bank in this case is typical of letters written to banks establishing these facilities but that in some cases there may be other points covered.

The Board's Division of Examinations will keep the Federal Reserve Banks currently informed as to the establishment of these facilities by State member banks in their respective districts and will pass on any information received from the Treasury Department with respect to special points covered in the agreements between the State member bank and the Treasury Department.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

COPY

Dear Mr. :

Reference is made to the recent conference in your bank at which Mr._____ of this Department and Major _____ of the War Department were present relative to the need for limited banking facilities at Camp _____. It is understood that your bank is willing to render this essential banking facility provided a satisfactory arrangement is perfected to offset costs of operation.

The Treasury is desirous of having the _____ _____, under its designation as a Depositary and Financial Agent of the Government, perform the following functions: (1) provide paying and receiving facilities for Army personnel, including custodians of Post Exchange funds, Company funds and other similar unit funds; (2) furnish the cash requirements of Finance Officers except cash for month-end payrolls; (3) accept deposits from Finance Officers for credit to the account of the Treasurer of the United States; (4) sell War Savings Bonds and Stamps; and (5) sell cashier's checks and bank money orders. All of the foregoing services should be rendered without charge to the Army personnel except for the sale of cashier's checks and bank money orders. Authorization to perform these functions at Camp _____ is contingent upon the military authorities providing adequate quarters at the Post and military protection to the extent necessary.

Confirming the arrangement agreed to at the conference, you are advised that the Treasury, as a basis for your providing limited banking facilities at Camp _____, is willing to place an initial balance of $_____ with your bank, with the privilege of investing such balance in a 2% Depositary Bond. The Treasury is willing, also, to permit your bank to purchase with its own funds a 2% Depositary Bond in the amount of $_____, making a total of $_____ invested in these bonds. The arrangement will be reviewed monthly for the purpose of making such adjustments as may be warranted. I wish to assure you that sufficient 2% Depositary Bonds will be allotted to your bank to offset the costs involved in providing banking facilities at Camp_____.

It will be necessary for your bank to execute and return to the Treasury the original and two copies of Form No. 387, Subscription Form for 2% Depositary Bond. The amount of your subscription on Form No. 387 should be $_____ and you should indicate that Methods A and C, as outlined on the reverse of the form, are to be used in making payment for the 2% Depositary Bond.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

In order that the Treasury may proceed with the matter, it is requested that you forward your check or draft for $_____ payable to the Treasurer of the United States in part payment for a 2% Depositary Bond. With respect to the remaining $_____, you are advised that funds in that amount will be placed to the credit of your bank by the Treasurer of the United States and used in making payment for a depositary bond.

It should be understood that the facility at Camp_____ will be in no sense a branch bank but will be a function which your bank has been requested to perform by virtue of its designation as a Depositary and Financial Agent of the Government.

Upon receipt of Form No. 387, completely executed, together with your check or draft for $_____, payable to the Treasurer of the United States, immediate steps will be taken to complete the arrangement and you will be advised.

Very truly yours,

(Signed) D. W. Bell

Under Secretary of the Treasury

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

176

S-596

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1942.

Dear Sir:

Sections 5(a) and 5(c) of Regulation W refer to payments to be made on the tenth day of the calendar month, and since this day falls on a Sunday in January next, the question has been asked whether payment may be deferred until the following day.

In accordance with the general rule in such cases, where the tenth day of the calendar month falls on Sunday, the final day for the purposes of sections 5(a) and 5(c) is the eleventh.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

177

S-597

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 3, 1942.

Dear Sir:

In view of the increasing difficulties of obtaining and retaining adequate staffs during the period of the war emergency, the Board cancels letters X-9798 dated January 21, 1937 and S-275 dated July 17, 1941 relating to the retention in service or reemployment of officers and employees after attainment of age 65.

Whenever by reason of the employment situation it would be to the advantage of your Bank to retain the services of an officer or employee after he reaches age 65, the Board will offer no objection to his retention on a temporary basis, whether or not his retirement is deferred pursuant to the resolution of the Retirement Committee dated November 28, 1942, with the understanding on his part that such temporary employment may be terminated at any time. The Board likewise will offer no objection to the temporary reemployment, with the same understanding, of former officers or employees who are over 65.

Each such case of retention or reemployment should be reviewed not less frequently than once a year and a record made of the action taken.

This letter of course does not modify the existing procedure with respect to the approval of salaries of officers nor apply to the Presidents and First Vice Presidents.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

178

S-598

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 11, 1942

Dear Sir:

It is understood that several Federal Reserve Banks have received inquiries regarding the application of Regulation W to advances made by general agents of insurance companies to their sub-agents for living expenses and the like. The inquiries have not been submitted to the Board and therefore the Board does not know all the facts upon which they are based. However, in the usual case it would seem that the answer to such questions would depend upon whether or not the general agent was "engaged in the business" of making loans within the meaning of section 3(a). If the loans are merely sporadic, isolated transactions, the agent would not be so engaged and the Regulation would not be applicable.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

179

S-599

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 14, 1942.

Dear Sir:

There is attached a memorandum from the War Department, dated December 7, 1942, setting forth the procedure to be followed in the future in making amendments to executed guarantee agreements.

We have been advised that the procedure outlined in the War Department memorandum will be satisfactory to the Navy Department and to the Maritime Commission.

The Federal Reserve Bank of New York has furnished us with a copy of a form it proposes to use in effecting changes, other than changes in the amount of the loan, in guarantee agreements. This form, a copy of which will be sent to you under separate cover, has been reviewed by representatives of the War Department, Navy Department, and Maritime Commission, and they are all in agreement that this constitutes a very satisfactory form of supplemental agreement for use in the class of cases referred to in paragraphs 5 and 6 of the enclosed War Department memorandum.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

COPY

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

December 7th, 1942

SPBFJ-

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

SUBJECT: Amendments of Executed Guarantee Agreements

1. In a considerable number of cases, the War Department has authorized amendments of executed guarantee agreements, and in some cases such amendments have been made by the Federal Reserve Banks under their delegated authority in loans of $100,000 or less. There appears to be some confusion as to the manner in which such amendments are to be effected and also as to the correct numbering of the amended agreements. It is recognized that the War Department's instructions in this respect have not always been consistent and in many cases have not been as complete as they might have been. It is hoped that the following instructions will establish for the future a simple procedure for the amendment of existing guarantee agreements.

2. Extensions of the maturity of the loan, and consents to the release, sale, transfer, further pledge, subordination, or substitution of any of the collateral, do not need to be treated as amendments of the guarantee agreement, and are not included in the following instructions.

3. It is requested that hereafter all amendments of executed guarantee agreements, whether authorized by this office or approved by the Federal Reserve Banks under their delegated authority in loans of $100,000 and less, be effected in the manner outlined below, so that this office will be able to furnish to the General Accounting Office a complete set of all guarantee agreements with all amendments.

4. If the amendment changes the amount of the loan, it is suggested that the Federal Reserve Banks treat the amendment in the same way as a new loan, which is to be used in part to repay the outstanding loan under the original guarantee agreement. There should therefore be a new guarantee agreement, currently dated, bearing a new current number, and showing the new amount of the loan, as changed. The old guarantee agreement should be cancelled, in the manner specified in the War Department's memorandum of September 10, 1942, and the in-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

debtedness under the old guarantee agreement should be reported to this office as having been paid.

5. If the amendment does not change the amount of the loan, the amendment should be effected by executing a supplemental agreement in the form of a letter agreement. The supplemental agreement should be dated currently and should carry the same number as the original guarantee agreement, modified so as to read "Supplement No. ___ to Contract W__ F.C.__" or Contract W___ F.C. ___, "Supplement No. ___". The supplemental agreement should be executed in the same way as a guarantee agreement, that is, there should be four executed copies signed by the Federal Reserve Bank and the financing institution, with the seal of the financing institution appearing opposite its signature, and two executed copies should be sent to this office.

6. In those cases where a loan agreement has been referred to in a guarantee agreement, and it is proposed to amend the loan agreement, the general proceedure outlined in paragraph 5 will be appropriate. The supplemental agreement will describe the amendments that have been made in the loan agreement and will state that the guarantee agreement is amended so as to cover the amended loan agreement. It should be noted that in cases of this kind, the mere amendment of the loan agreement between the financing institution and the borrower (to which the War Department is not a party) is not enough.

7. If the original guarantee agreement was executed before the distribution of the mandatory and optional standard conditions which were transmitted with the War Department's memorandum of October 9, 1942, these conditions do not need to be included in the amendment, nor do they need to be included in any new guarantee agreement executed in accordance with paragraph 4, above. But, as specified in the last paragraph of the War Department's memorandum of October 9, 1942, if any of the new optional conditions are used, all of the mandatory conditions must be taken, too.

8. Kindly transmit the foregoing to all Federal Reserve Banks and Liaison Officers.

War Department of the United States

By: (Signed) Paul Cleveland

PAUL CLEVELAND,
Lt. Colonel, A. U. S.
Chief, Loan Section,
Advance Payment & Loan Branch
Fiscal Division.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 18, 1942.

Dear Sir:

There are being forwarded to you today under separate cover the indicated number of copies of the following forms, a copy of each of which is attached hereto, for the use of State bank members in submitting reports of earnings and dividends for the calendar year 1942:

Number of copies

Form F.R. 107 (Revised November 1942), Report of earnings and dividends--calendar year 1942.

Form F.R. 107a (Revised December 1942), Instructions for the preparation of reports of earnings and dividends by State bank members of the Federal Reserve System.

There are also enclosed three copies of a memorandum (S-600a) which contains comments regarding the revised form of earnings and dividends report that should be incorporated, to the extent you think it desirable to do so, in your letter transmitting the above forms to the State bank members; and three copies of a memorandum (S-600b) which contains suggestions pertaining to the handling of the reports by the Federal Reserve Banks.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
(Enclosures with addressed copies only.)

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

SUGGESTED COMMENTS TO BE INCLUDED IN FEDERAL RESERVE BANKS' LETTERS SENDING EARNINGS AND DIVIDENDS REPORT FORMS TO STATE BANK MEMBERS IN DECEMBER 1942

1. The form of report has been revised and considerably simplified, particularly in Sections 2 and 3. The revisions are the result of efforts to bring about greater uniformity in forms of earnings and dividends reports, to provide an improved form of report, and to reduce the burden of bank reporting.

2. The Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation have adopted substantially identical forms of earnings and dividends reports, and the Comptroller of the Currency has adopted an identical itemization of earnings, expenses, losses, recoveries, and profits.

3. The National Association of Supervisors of State Banks has recommended that State banking departments use, in so far as possible, a form of earnings and dividends report like that adopted by the Federal Reserve System and the Federal Deposit Insurance Corporation, and it is expected that most of them will do so. Most State banks, therefore, will render the same form of report to both Federal and State banking authorities.

4. Detailed instructions have been provided for the guidance of State bank members in preparing their reports. These instructions should be carefully read before preparation of the report is begun, and they should be preserved for future use.

5. In Section 1 the principal revisions are as follows:

> Item 1(c), "Service charges and other fees on bank's loans", has been added. If the reporting bank's records do not permit the determination of the actual amount of such income, the amount reported against this item may be estimated (in so far as the year 1942 is concerned).
>
> Normal or recurring depreciation on banking house, furniture and fixtures, heretofore not segregated from extraordinary losses and depreciation charges on real estate, is now to be shown separately in current operating expenses.
>
> Taxes on net income, heretofore included in current expenses, are now to be shown separately against item 7 as a deduction from "Profits before income taxes".

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Dividends declared, formerly shown in Section 2 as a charge against undivided profits, are now to be shown against item 9 in Section 1 as a deduction from net profits; and "Net profits after dividends" are then to be carried forward to Section 2, "Changes in Capital Accounts".

6. Section 2 has been completely revised. Heretofore this section called for the gross amounts of all transfers to and from surplus, reserves for contingencies, reserves for dividends, etc., in addition to the amounts of assessments, reduction of capital not repaid to shareholders, dividends paid, etc. In revised Section 2, all debits and credits representing merely transfers from one capital account to another have been eliminated, thereby greatly simplifying this section of the report. All that is now required is the reporting of transactions that result either in an increase or a decrease in the total of all capital accounts.

7. Section 3 likewise has been radically changed. Heretofore, banks were required to show in this section the total profits, assessments, contributions, etc., since the organization of the bank, together with the distribution thereof. This information has been completely eliminated. All that is now required is that the banks show, as of the beginning and end of the report period, the balance in each capital account. This information may be readily taken from the bank's books.

8. Only calendar-year totals are to be reported in the current report. An interim semi-annual report, perhaps in condensed form, may be required at the end of June.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

SUGGESTIONS IN CONNECTION WITH HANDLING AND EXAMINATION OF STATE BANK MEMBER EARNINGS AND DIVIDENDS REPORTS BY FEDERAL RESERVE BANKS

December 1942

A copy of the Federal Reserve Bank's letter to State bank members transmitting the blank forms should be furnished to the Board of Governors as soon as practicable, and a copy of the letter and accompanying forms should be sent to the banking department of each State which lies in the Federal Reserve district.

When reports on Form F.R. 107 have been filed with the Federal Reserve Banks they should be carefully checked and any necessary corrections obtained, if practicable, before they are forwarded to the Board of Governors. Corrections should be clearly shown on the copies forwarded to the Board, with an indication of the authority for the correction, including the initials of the person at the Federal Reserve Bank who makes them. When necessary to clarify the corrections, a copy of the pertinent correspondence should be furnished the Board. If the obtaining of corrections is likely to delay the transmittal of any reports to the Board beyond three weeks from the close of the report period, such reports, together with pertinent correspondence or notes of outstanding correspondence, should be forwarded to the Board, to be followed later by appropriate advice of corrections.

The reports should be examined to see that, among other things--

The heading of the report and required signature are complete;

All footings are correct;

Amounts reported against each item in Section 1 do not appear to be obviously inconsistent with the amounts shown on preceding report(s) for comparable periods;

"Other current operating earnings", "Other current operating expenses", "Recoveries and profits--All other", and "Losses and charge-offs--All other" are properly itemized;

The number of officers and employees as shown against items 2(a) and 2(b) appears to be substantially comparable with prior reports;

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The net change in total capital accounts shown against item 14, Section 2, agrees with the difference between the totals shown in the first and second columns of Section 3;

Increases and decreases in capital in Section 3 are reflected in corresponding entries in Section 2;

All items in the first column of Section 3 agree with corresponding items of the report of earnings and dividends for the same date;

The amounts shown in both columns of Section 3 agree with corresponding items (or combinations of items) in condition reports, Form F.R. 105, if such reports are rendered as of the same dates.

It is desirable that, in so far as practicable, examination of and correspondence with the State bank members pertaining to capital accounts, as shown in earnings and dividends reports and condition reports, be conducted at the same time.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-501a

COPY

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

SPBFJ-

December 10, 1942

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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

(1) Guaranteed portion of outstanding 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."

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

PARTICIPATION CERTIFICATE PURSUANT TO GUARANTEE AGREEMENT

Pursuant to section _____ of a certain guarantee agreement No. _____, dated _____, 19__, 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:

Date	Principal Amount Original	Unpaid	Interest Rate	Maturity

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Nothing herein 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)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

195

S-602

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1942.

Dear Sir:

Reference is made to the Board's letter of January 17, 1927 (St. 5236), concerning reports from Federal Reserve Banks on arrangements with local clearing house associations and arrangements for group clearing of checks outside of Federal Reserve Bank and branch cities.

It is the Board's intention in the future to request these reports about every three years. Accordingly, no report need be submitted as of January 1, 1943, and subsequently until called for.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-603

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 26, 1942.

Dear Sir:

Referring to our letter of December 22, 1942, with reference to the proposed revision of the standard form of guarantee agreement, this is to advise you that any suggestions may be submitted so as to reach the Board not later than January 12, 1943.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-604

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 28, 1942.

Dear Sir:

In order to reduce the amount of work on the part of the Reserve Banks in preparing the annual reports to the Board on salary data, the summary on Form 9746-c has been simplified and is to be prepared on the basis of basic salaries, exclusive of any supplemental compensation.

It has been suggested that the usual list of employees as of the first of the year be eliminated on the ground that, in the course of an examination, the Board's examiners check salaries paid against the maximum salaries in the personnel classification plan. Other uses, however, are made of the lists submitted to the Board. Furthermore, it is anticipated that, in connection with questions which may arise with respect to adjustments of salaries and wages under the regulations of the Economic Stabilization Director, it will be helpful to have such information readily available. Accordingly, it is requested that the list be submitted in the usual form.

To avoid the necessity for reference to various letters with respect to annual reports on salary matters, the Board's letter of November 25, 1936 (X-9746) is canceled and it is requested that the following data be submitted:

1. Summary report as to number and salaries of officers and employees as of December 31, 1942. (Form S-604-a)

   These figures are for publication in the Board's annual report for 1942 and it is requested that they be submitted as promptly as practicable. The figures should not reflect any changes in either the number or salaries of officers and employees that become effective January 1, 1943.

2. Summary of salaries of employees by salary groups. (Form S-604-b)

3. List of employees as of January 1, 1943. (Form S-604-c)

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

4. Brief statement as to supplemental compensation, if any, paid during the year 1942. (Form S-604-d)

5. Brief statement as to the basis, extent, and practice with respect to the payment of overtime and the granting of compensatory leave for overtime.

The reports referred to above should cover all employees of the Reserve Bank, including those whose salaries are reimbursable, but should not include employees of the Victory Fund Committee.

Very truly yours,

L. P. Bethea,
Assistant Secretary

Enclosures 4

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-604-a

NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF THE FEDERAL RESERVE BANK OF _____ (INCLUDING BRANCHES)

December 31, 1942

	Total officers and employees including those whose salaries are reimbursed to the bank in whole or in part	Officers and employees (included in column 1) whose salaries are reimbursed to the bank in whole or in part(a)
Annual salary of President	$_____	
Other officers:		
Number	_____	_____
Annual salaries (b)	$_____	$_____
Employees, both permanent and temporary:		
Number (c)	_____	_____
Annual Salaries (b)	$_____	$_____

(a) Should represent aggregate of fractional amounts in the case of employees whose salaries are only partly reimbursed to the bank. For example, if 25 per cent of the salary of an employee receiving $1,200 a year is reimbursed to the bank, .25 should be included in the computation of the "number" of employees, and the amount of salary reimbursed, $300, should be included in the computation of the annual salaries.

(b) Including supplemental compensation, if any, adjusted to an annual basis, paid as of December 31, 1942.

(c) In the case of part-time employees, i.e., employees who are regularly engaged for less than a full day, the "number" reported should represent the portion of the full day worked. For example, if any employee is regularly engaged for one-half of the usual working day, .50 should be included in the computation of the "number" of employees.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-604-b

SUMMARY OF SALARIES OF EMPLOYEES
OF FEDERAL RESERVE BANK OF _____(INCLUDING BRANCHES)

	Salaries under $1500	Salaries from $1500 to $2499	Salaries from $2500 to $3999	Salaries of $4000 and over:	Total
Number of employees:					
On Jan. 1, 1942					
On Jan. 1, 1943					
Salaries of employees:					
Total on Jan. 1, 1942 (a)					
Total on Jan. 1, 1943					
Average on Jan. 1, 1942 (a)					
Average on Jan. 1, 1943					
Separations during the year 1942:					
Number caused by death					
Number who left on military leave					
Number caused by resignations					
Number caused by retirement					
Number due to all other reasons					
Total separations					
Employees on military leave and entitled to re-employment benefits under the uniform plan:					
Number as of Jan. 1, 1943.					
Total salaries as of dates of leaving					

(a) As submitted in report for last year. The figures will not be strictly comparable to those for 1943 since salary figures for January 1, 1942 include supplemental compensation, if any, whereas the figures for January 1, 1943 do not.

NOTE: Summary is for employees exclusive of officers. All figures are for basic salaries exclusive of overtime and supplemental compensation, if any. Employees absent on part salary or without pay (except on military leave) should be included in the statement at full annual salaries. Employees, if any, regularly receiving nominal salaries should be excluded and their number and aggregate salaries as of January 1, 1942 and January 1, 1943, stated in a footnote.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

EMPLOYEES OF THE FEDERAL RESERVE BANK OF_____AND ITS

BRANCHES (IF ANY) ON JANUARY 1, 1943

Name of Employee	Title of Job	Maximum Salary	Salary on Jan. 1	
			1942*	1943

Summary is for employees, exclusive of officers. Figures are for salaries, exclusive of overtime and supplemental compensation, if any.

Employees should be listed by functions or departments and the positions or jobs arranged in the same order as they appear in the personnel classification plan, Form A, on file with the Board of Governors of the Federal Reserve System. Employees classified in general junior positions should be included in the departments to which assigned, following the other employees in those departments.

The total number of employees including employees whose salaries are reimbursed to the bank in whole or in part and the total salaries paid should be shown for each function or department. Extra help or temporary employees should be listed with the regular employees of the bank and designated by the letter "T" after the classification symbol. In case of employees on a per diem or hourly basis, the estimated total annual compensation should also be shown.

*If hired during 1942, please show the initial salary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

SUPPLEMENTAL COMPENSATION PAID DURING 1942.

Period a/	Rate	Base	Times of Payment b/

Total supplemental compensation paid during 1942.....$_____

Please state briefly practice with respect to payment of supplemental compensation to employees who leave between dates of regular payments of supplemental compensation.

---

a/ Show as a period the time during which supplemental compensation was paid at the same rate on the same basic amount and at the same intervals.

b/ Please relate times of payment to period covered; e.g., end of each month, quarterly (indicating when quarter ends and the payment is made), etc.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-605

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 31, 1942.

Dear Sir:

Informal discussions have been had with representatives of the War Department, Navy Department, and Maritime Commission with respect to an apparent lack of uniformity in the vouchers submitted by the Federal Reserve Banks requesting reimbursement for expenses incurred pursuant to Executive Order No. 9112. As an outgrowth of these discussions, the following suggestions have been made with respect to the preparation of the vouchers which apply uniformly to the three Services, the only variation being in the number of carbon copies desired of Form 1034:

Form 1034

1. That the month or other period covered be shown in the second column, "Date of Delivery or Service".

2. That a uniform legend be shown in the third column, "Articles or Services", reading as follows: "Expenses incurred, as fiscal agent of the United States, for the _____, pursuant to Executive Order No. 9112".

3. That the total amount only of the voucher be shown in the "Amount" column. (When the expenses of both the head office and branches are included in the same voucher, it is not desired that separate totals be shown for each office.)

4. The Navy Department and the Maritime Commission each desire one copy of Form 1034 (white) and five copies of Form 1034a (yellow); the War Department desires one white copy and two yellow copies.

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Documents supporting Form 1034

1. One copy only of each supporting document is desired. (This refers both to receipted bills furnished by outside firms and to certified statements prepared in typewritten form by the Reserve Bank.)

2. When the expenses of the head office and branches are included in the same voucher, the supporting documents should be arranged, for all offices combined, by object of expenditure ("Salaries", "Retirement system contributions", etc.). It is not desired that the documents be arranged separately for the head office and each branch, and separate totals for each class of expenditure need not be shown for the head office and each branch.

3. It is requested that 3 copies of a summary statement of expenses included in each voucher be submitted in accordance with the attached form, a supply of which is being forwarded to your Bank under separate cover. When the expenses of the head office and branches are included in the same voucher, the "combined" figures only are desired on the summary statement.

4. All supporting documents, including copies of telegrams, should be stapled together securely in the upper left corner (with the staples opening on top), and any folded papers should be arranged in such a manner as to permit ready inspection without unfastening.

The Navy Department and Maritime Commission prefer that expenses incurred at the branches be included in the head office vouchers without segregation, and the War Department prefers this arrangement except in cases where liaison officers are stationed at the branches. The War Department requests that separate vouchers be submitted for branches having liaison officers. None of the agencies will object, however, to the submission of separate vouchers for the branches, if it is found more convenient to have the branches follow this procedure.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

S-605-a

Summary of expenses incurred, as fiscal agents of the United States, for the _____, pursuant to Executive Order No. 9112. **205**

	Amount
Salaries, including supplemental compensation	
Officers	
Employees	
Retirement system contributions	
Workmen's compensation insurance	
Overtime	
Supper money	
Telephone	
Tolls	
All other	
Telegraph	
Leased wire	
Commercial wires	
Printing, duplicating (including photostat work, etc.), stationery, and supplies	
Postage and expressage	
Commercial agency credit reports and services (Total charges, including charges, if any, for telephone, telegraph, etc.)	
Traveling expenses	
Local transportation	
Legal fees paid to outside counsel	
Rental of furniture and equipment	
Space maintenance	
Medical fees and expenses	
Other expenses (specify)	
Total (should agree with total on accompanying Form 1034)	

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis