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Dear Arthur:

In your letter of March 30, you seem to feel that there is an inconsistency between the provisions of Article IV, Section 2(c) and Article IV, Section 8(i) of the Bank Agreement.

I do not believe that there is really an inconsistency here. In the case of liquidating securities in which the Bank has invested, every effort should be made to facilitate disposal of the securities by the Bank. This is in line with the intention that private investors should finance as many as possible of the reconstruction and development loans. The Bank will be better able to dispose of its holdings at appropriate times if it is free to relend the proceeds.

On the other hand, when it receives repayment of principal from borrowers who have been loaned money which the Bank has raised in a member's market, the member's market will be affected by the relending of the funds. Accordingly, it should have an opportunity to pass upon the advisability of a second series of loans being made out of the borrowed funds. This right is given to the members by the provision which limits the use of such funds as provided in Article IV, Section 2(c).

Sincerely yours,

Ansel F. Luxford
Assistant to the Secretary

Mr. Arthur Smithies
Executive Office of the President
Washington 25, D. C.

RB:ec 4/24/45

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