



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

April 14, 1942.

Honorable M. S. Eccles,
First Security Bank of Utah, N. A.,
Ogden, Utah.

Dear Marriner:

It just occurred to me that you did not take with you a copy of the guarantee as finally approved and sent to the banks. I am, therefore, enclosing two copies; also a memorandum of the schedule of fees for guarantees. With respect to the schedule, we have advised the Federal Reserve Banks that they may make the information available to any bank upon inquiry. As to the guarantee, the War Department had already authorized us to advise the banks that they were free to discuss appropriate provisions of the guarantee with banks in connection with actual transactions. I am quite sure this would include an inquiry by a bank looking to a transaction with one of its customers. So long as any of this information is not released for publication, I can see no sense in withholding it from interested banks since the entire program is based upon the policy of popularizing these loans and guarantees among the banks.

An interesting case came up on Friday night late while Vest, Cleveland and I were putting the finishing touches upon the form of guarantee. Cleveland came late to the evening session and brought along with him a Captain Manning of the Ordnance Department, who outlined to us a critical case which had been stalled off for some two or three weeks in anticipation of the inauguration of loans under 9112. In order to make some rapid headway and in view of the fact that the Reserve Banks were just getting the release and the final form of guarantee the next morning and no liaison officers were available at any Reserve Bank, they requested that we sit in at a conference in our building on Monday morning. They proposed to have at the conference the principal, representatives of the principal's main depositories and a number of army officers concerned with the program. I took it upon myself to say that we would be glad to cooperate to that extent and later I cleared the arrangements with Draper and McKee.

It was quite a conference. They came in eleven strong. The principal is the Standard Steel Springs Company of Coraopolis, twelve miles from Pittsburgh. They have been chosen by the Ordnance Department to be the monitor for an aggregation of thirty other companies scattered from the Chicago area to the Philadelphia and Richmond Districts who will process armor plate which, in turn, will be furnished to the ten prime contractors building tanks for the army. This includes four subsidiaries of General Motors, Ford, Chrysler, American Locomotive, International Harvester, and a couple of others I cannot remember. Standard Steel Springs has a net worth of about \$3,500,000, and is presently borrowing

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\$1,750,000 on a term loan of twelve years and \$750,000 current loan. In addition, it has received some \$2,000,000 of advance payments from two of the prime contractors. In the proposed set-up no advances will be made by the War Department to the Standard Steel Springs for any of the subs but only to the primes, who will not advance to the subs. The program, therefore, will require the Standard Steel Springs to finance the unprocessed armor plate from the steel companies through the thirty other subs and its own plant to the primes, with a sixty to ninety-day lag before getting final payment from the primes. In addition to financing the cost of armor plate, they are also committed to finance the working capital requirements of the thirty subs and will, of course, have a vastly increased working capital problem of their own. The principal advantage gained in this proposal is that the existing facilities in the plants of the thirty subs will save investing some \$15 to \$20 millions in new plant for Standard Steel Springs. More important, perhaps, is the saving in time. The thirty subs will be doing virtually nothing but this tank work and the same for Standard Steel Springs.

Now comes the financial picture. It will be necessary for Standard Steel Springs to have \$5,000,000 within forty-eight hours, which will carry them fifteen days. By May first they will need a line of credit of about \$50,000,000, which will be used fully by September. By this time the program will be still expanding rapidly and it is believed that the requirements will amount to around \$100,000,000 by the end of the year. Against this aggregate there can be reductions through whatever financing can be arranged for the thirty subs on the basis of guaranteed loans made by banks in their various districts.

It is to say the least an interesting and challenging case and a guinea pig to set the pattern for large financing for subcontractors. The War Department boys say they have a half-dozen or so such cases building up at the moment.

Sitting in at the conference were officers of the Union Trust of Pittsburgh and the National Bank of Detroit. John McKee joined us in the afternoon session and helped very materially in telling the bankers that if they did not come along in a set-up of this kind with a ninety per cent guarantee, it was very likely that the bankers would lose a vast amount of business which is going to be available with the step-up in the war production program. The War Department stood pat on not going above a ninety per cent guarantee, as we did. Thus far, John has gotten the National Bank of Detroit to say they will take half of the \$5,000,000 fifteen-day loan with the ninety per cent guarantee and will ride along with the same participation in the \$50,000,000 loan. Union Trust has not yet come through, but the Guaranty Trust of New York has already indicated that they will go along with the National Bank of Detroit in the temporary loan if necessary.

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We are all hoping we can sell this loan to the commercial banks as it will set the pattern. If the \$50,000,000 loan can be sold to the commercial banks on the ninety per cent guarantee basis, it will do much to insure the success of the maximum ninety per cent guarantee in all future situations. This does not mean that the War Department or the Federal Reserve have said that they will in no case whatever make a one hundred per cent guarantee. All we have said is that in the Standard Steel Springs case and in others of the same general nature we think ninety per cent is as high as the Government ought to go.

Thought you would be interested in the above. Cravens is going out to Chicago tonight for the ABA Credit Clinic and while there will be at the Federal Reserve Bank a good deal of the time to acquaint them with this particular picture so that they can act not only on the temporary loans but anticipate action to help in the \$50,000,000 loan.

Please remember me to all the crowd at the bank.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Jerry". The signature is written in dark ink and is positioned to the right of the typed name "Jerry".

Enclosures 3