

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, September 25, 1940, at 10:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Davis
Mr. Draper

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the
Chairman

The action stated with respect to each of the matters hereinafter referred to was taken by the Board:

The replies from the Federal Reserve Banks to the Board's telegram of September 20, 1940, asking them to obtain indications of the extent to which representative banks or groups of banks in or near Federal Reserve Bank and Branch cities would stand ready to finance the construction and equipment of new plants and additions under a plan worked out by the National Defense Advisory Commission were reviewed by the Board. Attention was directed to the fact that the Board had agreed to advise the National Defense Advisory Commission of the results of the survey and to inform the Federal Reserve Banks in advance of the contents of any announcement that might be made from Washington.

The Board thereupon approved unanimously the following draft of letter to the Commission and authorized its Secretary to send it to the Secretary of the National Defense Advisory Commission immediately:

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"Supplementing my acknowledgment on September 21st of the receipt of your letter of September 20, the Board of Governors is glad to advise you of the results of the survey which has been made by the 12 Federal Reserve Banks and their 24 branches over the past week end for the purpose of ascertaining quickly the extent to which representative banks throughout the country would stand ready to finance the construction of new plants and additions needed by private manufacturers for the production of defense supplies in accordance with the plan which has been worked out by the National Defense Advisory Commission.

"When the plan was brought to its attention, the Board of Governors, as you know, expressed the belief that its adoption would afford the banking system an opportunity to be of assistance in financing the national defense program and the Federal Reserve Banks have esteemed it a privilege to make the survey suggested by the Commission.

"The information now at hand shows that commercial banks throughout the country stand ready to lend more than \$3,000,000,000 to manufacturers for emergency defense plant construction. The Board of Governors believes that manufacturers needing to expand their plants on account of the defense program should have no trouble in obtaining funds for construction promptly and at low rates of interest through their usual banking connections.

"It should be emphasized that because of the brief period allowed for the survey, in the interest of time saving, only a portion although a representative one, of the Nation's banks were contacted. The plan was described by telegraphed messages to the 12 Federal Reserve Banks and their 24 branches. Through the Federal Reserve Banks, the commercial banks that were consulted were advised that they were not asked to make firm or binding commitments, but merely to indicate the availability of their own funds at the present time without reference to funds which might be obtained from correspondent banks or from Federal Reserve Banks on advances or discounts. It is expected that returns from other banks which were not included in this initial survey would add substantially to the total amount indicated as being available.

"It was recognized in the survey that the plan and contract in certain respects are dependent upon pending legislation, as pointed out in your letter of September 20, and that the details of the contract may require

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"modification as discussion and experience develop the desirability of changes.

"The Board of Governors wishes to take this occasion to express its appreciation of the cooperation between the Commission and the Board and their respective staffs in planning and carrying out the details of this survey and to offer the further services of the Federal Reserve System, in this or any other connection, in any way that may be helpful to the Commission."

The Board also authorized its Secretary to transmit to all Federal Reserve Banks and Branches as soon as available a copy of the announcement by the National Defense Advisory Commission of the results of the survey.

Secretary's note: The announcement of the National Defense Advisory Commission referred to above reads as follows:

"Commercial banks throughout the country stand ready to loan at least \$3,000,000,000 to manufacturers for emergency defense plant construction, according to a test survey conducted by the Federal Reserve System for the National Defense Advisory Commission. The survey, covering a representative portion of banks in each of the country's twelve Federal Reserve districts, indicates that these institutions have available and are willing to loan an amount several times that which at present is believed required for building emergency production capacity.

"Borrowings from the banks would be made by defense manufacturers in connection with a new form of contract developed by the National Defense Advisory Commission, after consultation with the War and Navy Departments and the Comptroller General.

"Legislation now pending in Congress to permit the assignment of claims against the Government would allow manufacturers to assign the contract as security for borrowings needed for defense plant construction. Because of the security thus afforded, interest rates should be lower than on the usual type of commercial loans.

"Mr. William S. Knudsen, of the National Defense Advisory Commission, commented on the survey as follows:

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"This forty-eight hour test mobilization of bank credit available for defense plant construction loans shows that the commercial banks of the country are eager to do their part in the national defense program. Not only are they eager, but they stand ready with funds far in excess of the amount needed for this purpose. As soon as the pending legislation has been passed which will allow the form of contract developed by the National Defense Advisory Commission to be assigned as security for such loans, I believe that manufacturers needing to expand their plants on account of the defense program should have no trouble in obtaining funds for construction promptly and at low rates of interest through their usual banking connections.

'We are grateful to the Board of Governors of the Federal Reserve System and to the Federal Reserve Banks and branches for their cooperation in making this very timely and useful survey.'

"Federal Reserve authorities emphasized that in the brief period (two days) during which the survey was made only a portion, although a representative one, of the nation's banks could be reached. The Board of Governors of the Federal Reserve System, working in cooperation with representatives of the National Defense Advisory Commission, described the plan by telegraphed messages to each of the twelve Federal Reserve Banks and their twenty-four branches. Each was asked to explain the plan to representative banks in its territory. In the interest of time the survey was made over the past week-end in order to ascertain quickly the extent to which these banks would stand ready to finance the needs of the manufacturers, together with an indication of the rates at which such advances might be made. The banks were not asked to make firm or binding commitments, but merely to indicate the availability of their own funds at the present time and under present conditions, without reference to funds which might be obtained from correspondent banks or Federal Reserve Banks on advances or discounts. It is expected that returns from other banks which were not included in the initial survey will add substantially to the total amount indicated as being available.

"Specifically, the new contract has two purposes: To expedite signing of supplies contracts by the Army and Navy through assuring the contractor against loss on construction undertaken for military purposes; To safe-guard

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"the Government's interest in such facilities on termination or completion of the contract.

"The plan provides that the Government reimburse the contractor, not in additions to the unit price of the product purchased as heretofore, but in five equal annual installments covering the amount of his capital expansion costs. Thus, cost of supplies and amortization of construction cost by the Government would be separated. Prices are thereby held at a minimum and, while the manufacturer is relieved of the risk involved in building fixed assets for the emergency, he still absorbs all the ordinary risks involved in production.

"In other words, adoption of this plan assures that neither the private manufacturer nor the Government would assume in advance all the risk, nor subsequently reap as a profit the residual value. The contract contains provisions whereby the contractor may, by purchase or lease from the Government, acquire use of the facilities for himself after they have served their purpose in connection with emergency defense needs.

"It is expected that the plan will conserve government funds and stimulate investment of private capital in the defense construction program. At the same time, private manufacturers would provide management and operation and assume all the ordinary risks of the business. Government participation would be limited to actual expansion costs."

Letter to Mr. C. B. Upham, Deputy Comptroller of the Currency, reading as follows:

"This refers to your letter of September 4, 1940, advising that in the report of examination of the National Bank of Commerce, Lincoln, Nebraska, completed May 3, 1940, the examiner again criticized the absorption of out-of-pocket charges for country bank depositors as an apparent violation of Regulation Q, and requesting to be advised whether any determination has been reached by the Board in this matter.

"The Board of Governors has not taken any action with respect to the situation presented at the National Bank of Commerce, Lincoln, Nebraska, for reasons with which you are acquainted; but, as stated in our letter of January 19, 1940, in the event that the Board should

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"do so at any time, we will be very glad to advise you of the action taken."

Approved unanimously.

Telegram to Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Members of Board regret to learn from your telegram of death today of Mr. C. M. Bartholomew, and will appreciate your expressing their sympathy to members of family and his colleagues on San Antonio Branch board."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie

Secretary.

Approved:

Frank H. Hanson
Vice Chairman.