



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

193  
R-730

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 16, 1940

Dear Sir:

As you were advised in the Board's letter of October 29, 1940, the National Defense Advisory Commission has requested the Board of Governors to cooperate with it in carrying out the Commission's program for dealing with the problems and interests of the smaller business establishments in relation to the defense program. It is hoped that the joint Defense Commission--Federal Reserve System machinery (which decentralizes this phase of the defense program) will enable business men in your District to obtain immediate information on defense order matters from your Bank and its branches without coming to Washington.

In conformity with the undertakings reached during the conference held in Washington November 12 and 13, it is deemed desirable for the Federal Reserve Banks to inform the banks in their districts of the program being undertaken by the Federal Reserve System at the request of the Defense Commission. As a first step in carrying out this program, it is suggested that a letter along the lines of the attached draft be addressed promptly to the banks in your District.

In the proposed letter to the member and nonmember banks there are indicated briefly the services which the Federal Reserve Banks are in a position to render in connection with the defense program. It is contemplated that this letter will also request the banks to furnish, from time to time, for the use of the Director of Small Business Activities of the National Defense Advisory Commission, certain information which he desires relating to business establishments which are not now on the invitation bid lists of the War and Navy Departments but which would like to furnish needed supplies and are in a position to do so. The enclosed draft of the proposed letter indicates the method by which it is hoped the information will be obtained, and, for the assistance of the banks, there is enclosed a brief report form for use in this connection. You will note that the information is to be supplied by the banks directly to you and is in the nature of a confidential report such as is referred to in sub-paragraph numbered 1 of the Defense Commission's letter of October 25, 1940.

To expedite the carrying out of this program, it is suggested that your Bank have the necessary number of report forms for use in your District printed on a good grade of paper, size 8-1/2 x 11, containing exactly the same questions, and in the same order, as set forth on the sample form attached. Two copies of each completed report should be mailed promptly to the Board's Division of Bank Operations.

You will probably find it desirable to have a representative of your Bank call upon banks located in the larger business centers for the purpose of soliciting their cooperation in dealing with the problems and interests of the smaller business establishments in relation to the defense program.

As stated at the round-table conference on November 13, all financial problems in your District with respect to which you need information or assistance from Washington should be taken up with the Board's Division of Bank Operations. All problems relating to purchasing of materials and supplies by the armed services, bidding procedure, War and Navy Department contracts, and the like should be taken up directly with the office of the Director of Small Business Activities of the National Defense Advisory Commission.

It is my understanding that the Office of the Director of Small Business Activities will send to the officer of your Bank and of each of its branches, if any, designated as field representatives a sample set of (a) Army Purchase Information Bulletin, 1940, (b) Navy Department bulletin "Selling to the Navy", (c) bulletin, "Value of Defense Contracts Awarded, by Federal Reserve Districts and Industrial Areas, June 1 to October 31, 1940", prepared by the Bureau of Research and Statistics, National Defense Advisory Commission, (d) explanatory statement describing the plant facilities contract, (e) explanatory statement describing the assignment of claims procedure, (f) "Notice of procedure for certification under section 124 of the Internal Revenue Code", and (g) "Instructions for the preparation of applications for certification under section 124 of the Internal Revenue Act". This material will supplement material furnished you with the Board's letter of October 29, 1940.

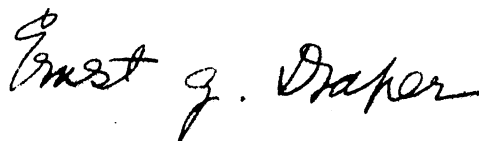
It is desirable that the press in your District be kept informed of developments in this field, and I should appreciate it if you will furnish it with such information as you think would be helpful in furthering this program.

In undertaking this joint program with the Defense Commission the Board of Governors believes that the Reserve System is afforded a splendid opportunity to place its facilities among the national defense

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forces. Whether or not we succeed in our undertaking will depend in large part upon our mutual efforts. We here in Washington stand ready at all times to be of assistance to you. The Director of Small Business Activities and his entire staff are at your complete disposal for such problems as you may find it necessary to refer to them.

Very truly yours,



Ernest G. Draper  
Board of Governors, Federal Reserve System

Enclosures - 3

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

DRAFT OF LETTER FROM FEDERAL RESERVE BANKS  
TO COMMERCIAL BANKS

R-730a

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Dear Sir:

In order that the smaller business concerns in every part of the country may participate more fully in the National Defense Program, the National Defense Advisory Commission has designated Mr. Donald M. Nelson, Coordinator of National Defense Purchases, as Director of Small Business Activities. In order to decentralize its activities in this respect the Commission in its letter of October 25, 1940, a copy of which is enclosed, asked the Board of Governors of the Federal Reserve System to act as its operating agent in carrying out this purpose. The Board of Governors has designated Governor Ernest G. Draper to supervise the activities of the Reserve System and to serve as its liaison officer with the Director of Small Business Activities.

The Board of Governors and the Federal Reserve Banks have assured the National Defense Advisory Commission of their desire to cooperate with it in its endeavor to spread orders for defense needs to the extent practicable among the smaller business enterprises throughout the country. The purpose of this letter is to solicit your cooperation in carrying out the program.

In each of the twelve Federal Reserve Banks and the twenty-four branches an officer has been designated to serve as the field representative of the Director of Small Business Activities and of the Board of Governors. The officers designated for this purpose in this District are \_\_\_\_\_.

These officers will be ready at all times to consult with business men and bankers with respect to the procedure to be followed in obtaining Government contracts and sub-contracts, and to advise with them as to means of obtaining needed credit if it is not available from the usual sources. By the use of the services of the Federal Reserve Banks and their branches in their own trade territories, it is hoped that the convenience of small business enterprises throughout the country will be greatly facilitated and that business men will find it unnecessary to make trips to Washington to obtain information with respect to defense contracts.

The office of the Director of Small Business Activities will serve as a clearing house for information for the National Defense Advisory Commission and the War and Navy Departments, as well as for the smaller

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business enterprises themselves. It will endeavor to assist business men to learn of the future needs and requirements of the military and naval branches of the Government. At the same time it will endeavor to assist primary contractors who have been awarded defense orders to get in touch with the smaller business enterprises which can furnish special types of goods and services needed by the primary contractors. The Director of Small Business Activities also desires to encourage the use of the customary banking channels to finance the credit needs of the smaller business enterprises that participate in meeting the requirements of this program.

It is the intention of the Director of Small Business Activities to inform the Federal Reserve Banks from time to time of the material and supply needs of the armed services so that this information may be made available to prospective bidders in each Federal Reserve district. There will also be made available to the Federal Reserve Banks information with respect to the last bidders on supply contracts for the War and Navy Departments so as to enable potential supply and material men to establish contact with the usual and established primary contractors.

To obtain needed information the Federal Reserve Bank of \_\_\_\_\_ has been requested to solicit your cooperation in obtaining the data called for by the enclosed report form, copies of which will be sent to you under separate cover. The information furnished us on these forms will be kept confidential. It will be necessary to rely upon your bank for assistance in carrying forward this program, and it is hoped that you will be able to furnish most of the information called for by the form from your own files, and that you will call upon your customers for only such of the information as is not now readily available to you.

Among your customers there are no doubt some concerns which are already on the invitation bidding lists of the local army procurement officers, the Navy Department, or other branches of the armed service. Information with respect to such concerns should not be supplied on this form. It is the purpose of the present inquiry to reach only those smaller concerns who are not on the invitation bidding lists of one or more branches of the armed services, and who have not previously participated in Government contracts, but would like to furnish needed supplies either as primary or subcontractors and are in position to do so.

It is our hope that you will not hesitate to call upon this bank or any of its branches for information with respect to any phase of the defense program.

Federal Reserve Bank of \_\_\_\_\_

Enclosures 2

C O P Y

B-730b

October 25, 1940

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

Gentlemen:

The National Defense Advisory Commission believes that small and medium sized business enterprises, along with the larger business enterprises, occupy a place of vital importance in the national defense program. So that these small and medium sized concerns may participate more fully in the program, the Commission has designated the C.O.N.D.P. as its Director of Small Business Activities.

The Office of the Director of Small Business Activities will serve as a clearing house of information for the National Defense Advisory Commission, the War and Navy Departments as well as for the smaller industries themselves. It will endeavor to assist the smaller enterprises in obtaining defense contracts and advise and assist them in obtaining such financial aid as may be required in the execution of defense orders.

If this program is to be carried out successfully the Commission believes that the cooperation and assistance of the Federal Reserve System is desirable. In this connection it is thought that the Board of Governors might act as operating agent for the National Defense Advisory Commission, designating one of its Board members to have charge of this work and that the Board request each Federal Reserve bank to designate a senior officer in each Reserve bank and branch to serve as field and technical representatives.

The Commission believes that the officers so designated can effectively participate in this phase of the defense program if they might assume the following duties:

1. To make confidential reports from time to time concerning business enterprises located in their respective districts desiring to obtain defense orders;
2. To acquaint local banks with the procedure to be followed in accepting assignment of claims against the government resulting from government contracts, as security for loans;

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3. To encourage local banks to make loan commitments on condition that borrowers obtain government contracts and assign claims against the government resulting from such contracts as Security for loans;
4. To furnish business enterprises with information on the procedure to follow and proper *contacts* ~~contracts~~ to make relative to obtaining defense contracts;
5. To assist business enterprises which have obtained defense orders and are unable to obtain necessary credit from local commercial banks, to obtain loans from the Federal Reserve Banks or R.F.C.

It is contemplated that Mr. Donald M. Nelson, Coordinator of National Defense Purchases, and Director of Small Business Activities, will meet in Washington with the designated officers of the Federal Reserve banks at a date to be announced shortly, in order to fully acquaint them with the details of this program.

It will be appreciated if you will advise the Commission at your earliest convenience whether the facilities of the Federal Reserve System can be so utilized.

Very truly yours,

William H. McReynolds  
Secretary

## FACILITIES FOR DEFENSE SUPPLIES

This form should not be filled out for any concern that now receives invitations to bid from the Army, the Navy, or any other branch of the armed services.

TO THE FEDERAL RESERVE BANK OF \_\_\_\_\_

1. Name of concern \_\_\_\_\_
2. Address of concern \_\_\_\_\_  
(Street) (City) (State)
3. State principal articles or products now manufactured or processed \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. What kinds of defense articles would the concern be interested in supplying?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. State approximate or estimated number of persons employed \_\_\_\_\_
6. (a) State the total approximate value of sales for the year 1939 \_\_\_\_\_  
(b) At what per cent of maximum capacity did concern operate in 1939? \_\_\_\_\_  
(c) At what per cent of maximum capacity is concern now operating? \_\_\_\_\_
7. If the concern should obtain a defense contract in reasonable relation to present or expandable capacity, would it require additional financial aid for--  
(a) Working capital purposes? \_\_\_\_\_  
(b) Fixed capital purposes? \_\_\_\_\_
8. Could reasonable financial aid be obtained from local banks? \_\_\_\_\_

\_\_\_\_\_  
Name of bank submitting report

\_\_\_\_\_  
Signature of officer

Please type answers

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