

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

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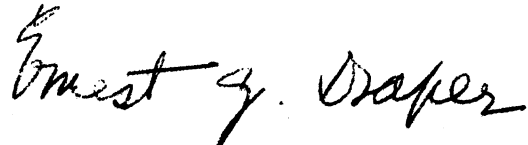
ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 27, 1940

Dear Sir:

During the recent Presidents' Conference some of the Presidents asked me to send them copies of any reports I submitted to the Board covering activities of the Federal Reserve System in connection with the defense program. For your information, there is enclosed a copy of my first report dated December 21. It is now contemplated that future reports will be made at approximately monthly intervals.

Very truly yours,



Ernest G. Draper.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



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It was the understanding at the Conference that the Reserve Bank field representatives would be in a position to familiarize local banks with the procedure to be followed in accepting assignment of Government claims as security for loans; to encourage local banks to make loan commitments on condition that borrowers obtain Government contracts; to furnish business enterprises in their districts with information on the procedure to be followed relative to obtaining Defense contracts; and to assist small business enterprises in obtaining necessary financing from their local banks.

On November 16, 1940, a draft of letter indicating briefly the services which the Reserve Banks are in a position to render in connection with the Defense program was sent to the Presidents of the Reserve Banks with the suggestion that a letter along that line be addressed promptly to all banks in their respective districts. The Reserve Banks were furnished a report form entitled "Facilities For Defense Supplies" and were requested to have the form printed and forwarded to commercial banks to be filled out for concerns interested in supplying Defense articles. Two copies of each completed report are mailed by the Reserve Banks to the Board's Division of Bank Operations, one of which is given to the Director of Small Business Activities of the National Defense Commission. These reports are now being received, and, while they are coming in rather slowly except from one or two districts, the indications are that they will presently be received in larger volume and will be very helpful.

The Reserve Banks were advised that all financial problems on which they need information or assistance from Washington should be taken up with the Board's Division of Bank Operations, and that all problems relating to purchasing of materials and supplies by the armed services, bidding procedure, and the like should be taken up directly with the Office of the Director of Small Business Activities of the National Defense Advisory Commission.

Numerous telephone, telegraph, mail, and personal inquiries have been received requesting information or assistance with respect to various financial and other problems that have arisen, and all such inquiries, I believe, have been answered with the utmost dispatch, generally either on the day they were received or the following day. While many of these inquiries were of a minor nature and, therefore, were not recorded, more than 50 have been deemed sufficiently important to warrant the maintenance of written records in connection therewith. Each such case has been assigned a number and written up on Form F. R. 536 entitled "Defense Contract Case Handled through Federal Reserve Bank". This form provides for showing the District, name of contractor or sub-contractor, material, contracting agency,

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source of inquiry, bank involved (if any), "facts", and "disposition". A summary statement covering thirty-nine of these cases is attached. This record should prove helpful in handling any future inquiries of a similar nature and also in answering any questions that may be raised with respect to the disposition of a particular case. When questions of a general nature have been raised, the substance of our replies has been transmitted to all Federal Reserve Banks for their information. A number of the Reserve Banks have indicated that they are appreciative of our promptness in answering their inquiries.

In our letter of December 5, S-240, the Federal Reserve Banks were requested to render reports each Monday of the activities of their field representatives on behalf of the Defense program. The first reports, which cover the period from November 12 to December 7, are attached. From these reports it appears that the Reserve Banks have circularized the banks in their districts, their representatives have addressed meetings of bank associations and numerous inquiries received through banks and through others have been answered. It appears that many business concerns have been aided either in obtaining Defense contracts, or in necessary financing, in some instances under the provisions of Section 13-b. Commercial banks are reported as responding satisfactorily and as being prepared to cooperate fully in promoting the National Defense program. As might be expected, some criticism has been reported of the Reconstruction Finance Corporation's announcement of a rate of one and one-half per cent on Defense loans made by it. There is also attached a summary of the reports prepared by the Division of Bank Operations. A copy of this summary is being furnished the office of the Director of Small Business Activities in response to its request.

(Signed) Ernest G. Draper

Attachments

DEFENSE CONTRACT CASES HANDLED  
THROUGH  
FEDERAL RESERVE BANKS

| <u>Date</u> | <u>F.R. Bank</u> | <u>Subject</u>   |
|-------------|------------------|--|
| 10/31       | Chicago          | Request to expedite assignment of claim of \$15,000 as security for loan of \$10,000 to be made by Main State Bank of Chicago                      |
| 10/31       | Cleveland        | Request to permit 30 percent advance on War Department contract to be deposited in a State member bank rather than a National one.                 |
| 11/1        | Cleveland        | Inquiry as to whether subcontractors can benefit from Emergency Plant Facilities contract on same basis as primary contractor.                     |
| 11/6        | Kansas City      | Request for advice as to the necessary steps to be taken in order to have an assignment accepted by War Department                                 |
| 11/15       | Minneapolis      | Request for Navy specifications for 145,000 pair gymnasium shoes.  |
| 11/15       | Pittsburgh       | Request for advice regarding the procedure to be followed in obtaining an advance on a Government contract.  |
| 11/19       | Chicago          | Request for information concerning procedure to be followed in securing proper certification under Section 124 of the Internal Revenue Act.        |
| 11/20       | Richmond         | Request for a copy of Navy contract for the erection of housing facilities at Norfolk Navy Yard.   |
| 11/22       | Cleveland        | Request (1) as to purchasing officer at Camp Holabird (2) whether assignment instrument may provide that checks be payable solely to the assignee. |
| 11/22       | Chicago          | Request that contracting officers at Fort Sheridan, Illinois, be advised with respect to assignment of claims procedure.                           |
| 11/25       | Chicago          | Request from War Department to investigate the responsibility and financial condition of Vilter Manufacturing Company.                             |

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| <u>Date</u> | <u>F. R. Bank</u> | <u>Subject</u>  |
|-------------|-------------------|---|
| 11/26       | Chicago           | Request for information as to definite procedure to be followed in making application for Emergency Plant Facilities.   |
| 11/26       | Cleveland         | Request for information as to whether or not offset law relating to Army and Navy contracts is applicable to Treasury contracts.  |
| 11/22       | Minneapolis       | Request that an effort be made to release a contracting company from its contract with the Navy.  |
| 11/23       | Cleveland         | Request for advise as to whether or not certain contracts contain any prohibitions against their assignment as collateral for a loan.   |
| 11/19       | Minneapolis       | Request for information regarding three contracts and questions relating to general policy matters involving these contracts and all future contracts with both Army and Navy.                                      |
| 10/28       | Minneapolis       | Request for specifications of certain supplies for Air Corps.   |
| 11/18       | Cleveland         | Request to expedite consideration by War Department of an application for Emergency Plant Facilities.   |
| 11/26       | Boston            | Request from War Department to investigate the responsibility and financial condition of the Cowdrey Machine Works.   |
| 11/29       | Portland          | Request to investigate industrial facilities for making gun mounts.   |
| 11/29       | Cleveland         | Request for information regarding the preparation of Emergency Plant Facilities contract for sub-contractors.   |
| 11/29       | New York          | Request from War Department to investigate the responsibility and financial condition of the Electric Arc Cutting and Welding Company.  |
| 11/29       | Dallas            | Request to expediate an assignment of claim to the Federal Reserve Bank, which is making a loan to finance Dallas Cotton Mills Company.   |
| 12/2        | Philadelphia      | Request as to whether or not the Navy could guarantee a contractor against loss on Emergency Plant Facilities, if contracts are cancelled, other than by the provisions of the Emergency Plant Facilities contract. |

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| <u>Date</u> | <u>F. R. Bank</u> | <u>Subject</u>   |
|-------------|-------------------|--|
| 11/28       | Minneapolis       | Request for expediting delivery to potential bidders of Army and Navy specifications.  |
| 12/2        | Philadelphia      | In filing assignment of Government contracts it is required, in the case of a corporation, that a certified copy of resolution be attached authorizing execution of assignment by officers.  |
| 12/3        | Chicago           | Request to expedite consideration of a request to assign claim filed with contracting officer at Frankford Arsenal, Philadelphia.  |
| 12/4        | Boston            | Request for information as to proper officer of American Red Cross to be communicated with in regard to yarn requirements.   |
| 11/30       | Portland          | Request that industrial facilities for the manufacture of wooden ships be investigated by the Navy Department.   |
| 12/5        | Baltimore         | Request that the War Department not require a contracting company to file application for assignment with contracting officer located in Porto Rico but permit the application to be filed directly with the office of the Assistant Secretary of War. |
| 12/5        | Chicago           | Request that War Department notify a contracting officer in Madison relative to assignment of claims procedure.  |
| 12/2        | Cleveland         | Request from War Department to investigate the responsibility and financial standing of the Robertshaw Thermostat Company.   |
| 12/6        | Chicago           | Request for information as to whether War Department considers an option to purchase property a contract against which a resulting claim can be assigned as security for a bank loan.  |
| 12/5        | Chicago           | Request for specifications of caskets used by War Department for burial of deceased soldiers.  |
| 12/6        | Cleveland         | Request for information as to bids to be opened for 1,000,000 gallons of paint.  |

| <u>Date</u> | <u>F. R. Bank</u>         | <u>Subject</u>   |
|-------------|---------------------------|--|
|             | All Federal Reserve Banks | Request to discuss with War Department a method of expediting the handling of requests for assignment of claims.   |
| 12/7        | Philadelphia              | Request that the War Department permit a 30 percent advance on a contract to be deposited in a State member bank rather than in a National Bank.                   |
| 12/7        | New York                  | Request that the War Department permit a 30 percent advance on a contract to be deposited in a State member bank rather than in a National Bank.                   |
| 12/6        | Kansas City               | Request to confer with War Department relating to the assignment of a claim resulting from a contract for the construction of a large arms plant near Kansas City. |



Summary of Federal Reserve Bank reports on activities of field representatives in behalf of the Defense program, Nov. 12- Dec. 7, 1940

### Boston

The banks in the First District are responding very warmly in their desire to cooperate with the National Defense program. Most of the inquiries received have been in respect to the procedure to be followed by banks in reaching their customers as the desired information is not available in the banks' files. Some banks have contacted their customers individually but the larger ones have resorted to newspaper advertisements.

A group has been formed of six senior officers of banks in the larger cities of Connecticut and in response to its request the Reserve Bank is sending a representative to Connecticut to serve as secretary of the group and to make personal contacts with all commercial banks in that State. The establishment of similar groups through the banking associations in other states is under consideration.

A meeting of all commercial banks in metropolitan Boston was held under the sponsorship of the Boston Clearing House Association on December 4 to discuss matters relating to the Defense program. This meeting was attended by Mr. Hult and by the representative for the First District of the Bank Management Commission of the American Bankers Association.

Not over 15 individuals called at the Reserve Bank and all but two were familiar with bidding for Government contracts and merely inquired whether there was any other line they might adopt in order to expand their businesses. Investigation proved that two concerns which had been awarded contracts had neither the facilities nor the ability to fulfill any Government contract. Contacts were established with the Ordnance Department, Boston, and with several associations in and outside Boston.

No bank visited by the Bank Relations representative reported any recent demand for Defense financing and none stated that any immediate demand was in evidence. The following two points were referred to by bankers as deterrent to their undertaking a widespread campaign for loans: (1) Announcement of R.F.C. with respect to rates; and (2) Feeling that many small concerns may not be able to determine production and labor costs accurately enough to make financing of operations against contracts secured by competitive bidding a good banking risk for small banks not experienced in making industrial loans. Certain large banks located both in and outside the First District are actively soliciting Defense loans. The only rate that has been heard quoted is that of three per cent by a Boston bank.

Boston (Continued)

The Reserve Bank's Statistical Department indicates that without available data with respect to the completion of Defense contracts to subtract from the cumulative Government contract totals awarded, a very false expectancy on pay rolls, employment, trade, and prices may exist within the next year. The Statistical Department states that up to October 31, 1940, \$1,322,478,000 had been awarded in New England and asks, for example, how much has been completed now and how much will have been completed by December 31.

New York

One application has been received to participate with member bank in a loan of \$1,000,000 to a concern which has an Army contract.

Arrangements have been made for the facilities of the Reserve Bank to be used on December 17, 1940, for the purpose of bringing together the District representatives of the New York State Bankers Association and some Connecticut and New Jersey bankers to discuss the Defense program.

Forty-one individuals representing principally manufacturers and contractors have called at the Reserve Bank. Of the 41 interviews, 33 were primarily concerned with obtaining contract work and represented, for the most part, small manufacturers of steel and other metal products. The remaining eight inquiries pertained solely to requests for financial aid. In four of such cases it was ascertained that reasonable bank credit was available and the inquiries were the result of a desire for lower interest rates or a misunderstanding that the Government proposed to finance directly all Defense work. In two instances individuals desired equity capital in order to purchase nonoperating plants. The remaining two cases desired Government funds for capital investment in new enterprises in excess of a sum of private capital already available.

Forty-six letters have been received from various concerns asking how they might participate in National Defense work. Each letter was answered and Circular No. 2147, together with the forms entitled "Facilities for Defense Supplies", were enclosed. Numerous telephone inquiries have been received from financial institutions concerning the procedure and mechanics of a bank loan secured by the assignment of claims under a Government contract.

Banks in the Second District located in Fairfield County, Connecticut, have indicated that the Merchants Association of Connecticut has completed a thorough study of the manufacturing facilities of the

New York (Continued)

entire State and that its report has been made available to the National Defense Commission. These banks have decided, therefore, that further to pursue the matter by means of the Reserve Bank's facilities would be a duplication of work which it is claimed is more detailed than that required by the Reserve Bank.

The Buffalo Branch has received 25 telephone calls and had 12 interviews with business men and banks.

Officers of the Reserve Bank have discussed the Defense program with various Procurement officers and are now in a position to contact them as occasion arises.

Philadelphia

Circular letters were sent to all banking institutions in the district furnishing copies of the "Emergency Plant Facilities Contract", and explaining the functions and facilities of the Federal Reserve System in the Defense program. The circular entitled "Financing National Defense" was also sent to all banking institutions and to approximately 2,000 industrial concerns that report to the Federal Reserve Bank monthly on employment, payrolls, etc.

Regional meetings of banking groups at Scranton and Wilkes-Barre were addressed by President Sinclair, and similar meetings at Bethlehem and Reading were addressed by Vice President and Field Representative Davis. Articles placed in leading newspapers throughout the district have resulted in inquiries by letter and telephone.

Fifty-four inquiries were received as to how to get supplies contracts; three as to how to arrange facilities contracts; ten as to how to finance supplies contracts, and thirty-five for general information. During the report period six applications for 13-b loans for defense purposes have been received, of which four, in the amount of \$5,870,000 have been approved. The other two applications are under consideration. In addition, extensions on payments on five outstanding 13-b advances have been granted to assist the borrowers in financing defense orders on hand.

The attitude of the banks in the district has been generally cooperative and there exists an evident desire to assist to the fullest extent in financing the National Defense program.

Cleveland

Banks in the Fourth District have requested 7,208 forms captioned "Facilities for Defense Supplies" and 71 banks have returned 198 completed forms.

Personal interviews at the head office have ranged from two to eight daily and the number at each of the branches not quite as high. Most of the interviews have been with representatives of manufacturing concerns which wish to obtain Government business. Several subcontractors have inquired about the procedure for obtaining Emergency Plant Facilities Contracts and a number of telephone calls have been received from banks. The Reserve Bank was of assistance in closing negotiations between The Winters National Bank and Trust Company of Dayton, Ohio, and the Sheffield Gage Company of Dayton for an Emergency Plant Facilities Contract.

Representatives of the Reserve Bank have made the acquaintance of Ordnance Procurement officers in Cleveland, Cincinnati, and Pittsburgh. Arrangements have been made for eight or nine meetings in January of bankers in various parts of the Fourth District.

One application for a line of credit in the amount of \$650,000 for Defense purposes has been received and will be presented to the Industrial Advisory Committee on December 16.

The inquiries which the Reserve Bank has passed on to the Board's offices have been handled with dispatch.

Richmond

While only 56 "Facilities for Defense Supplies" forms have been received to date, there have been requests for additional forms and it is evident that a great many more will be received in due course.

A sample form of assignment prepared by the Reserve Bank's Counsel was furnished to several banks at their request and was favorably received.

The Reserve Bank has assured two banks where customers' needs are in excess of their legal limits that it will give favorable consideration to participating in such loans if not practicable to have the loan divided between two or more commercial banks.

In the case of one industrial borrower, the terms of a direct advance by the Reserve Bank were revised in order to assist the company in financing a \$1,960,000 contract for the manufacture of anti-aircraft

Richmond (Continued)

shell cases. Under the provisions of Section 13b there have been approved recently loans totaling \$175,000 to three enterprises engaged in supplying defense needs. While most of the larger concerns with Government orders apparently have sufficient credit, at least for the present, to enable them to finance themselves without difficulty, one such concern has requested assistance and has been invited to discuss the matter with the Reserve Bank.

Atlanta

In response to its circular letter of November 19, 1940, the Reserve Bank received and sent to the office of the Director of Small Business Activities the names of 110 concerns to be placed on the invitation bidding lists of Army and Navy Procurement offices.

The Reserve Bank has examined all statements on Form ND-1 and has communicated with the banks submitting them in cases where it appeared assistance in supplying working capital might be given.

A meeting to acquaint bankers with the part which they may play in the Defense program is to be held in the Reserve Bank Building on December 12 under the auspices of the Georgia Bankers Association and the Federal Reserve Bank of Atlanta. A similar meeting will be held in New Orleans on the same date and arrangements for meetings at Birmingham, Jacksonville, and Nashville are under way.

Mr. William C. Cram, Jr., an industrial engineer, has been retained as Technical Adviser to the Reserve Bank.

A survey is being made for the Navy Department of all plants at the South Atlantic and Gulf ports in the District which should be able to build, service, or repair boats up to 200 feet.

The Reserve Bank has not financed or directly participated in the financing of any contractors but discussions have been held with a number of banks on matters involving financing. Advice has been given to a number of banks concerning the Assignment of Claims Act of 1940. A pamphlet, entitled "Financing National Defense", following closely that issued by Philadelphia is being prepared for distribution to all banks in the District.

Mr. Neely has personally talked with Navy Procurement officers and has been exceedingly helpful in the formulation of the Reserve Bank's plans for National Defense.

Chicago

The response to the Reserve Bank's questionnaire of November 18 was immediate and the results are reflected in the following summary: Loans or commitments made, 2; correspondence, 130; interviews, 95; telephone calls, 211; questionnaires transmitted to Board, 521. A number of meetings were held with bank representatives relative to the program for developing the information called for in the questionnaires. Various Army and Navy officials have been invited to have lunch at the Reserve Bank and to discuss phases of mutual interest. These meetings have been extremely helpful and it has been found possible to solve many local problems by communicating with local Army and Navy officials.

Some manufacturers have asked that engineers be sent to their plants with a view to advising the types of Defense products that could be supplied with their facilities. In such cases the Reserve Bank has requested that Army engineers make the surveys and they are cooperating very effectively.

At the request of the local Ordnance Department, the Reserve Bank forwards to it, direct, copies of all questionnaires received. The Ordnance Department maintains a complete card index on industries and answers requests from large concerns holding prime contracts for information regarding smaller manufacturers to whom they could sublet contracts for parts.

Smaller manufacturers have experienced considerable difficulty and delay in effecting assignments due to the fact that Procurement Officers were not informed concerning the procedure, but now that regulations have been issued by the War and Navy Departments it is assumed that the assignments can be functioned with reasonable expediency.

While every effort is being made to help the smaller manufacturer in arranging for financial aid through normal banking channels, the Reserve Bank advanced \$2,000 to one applicant in immediate need of assistance to meet his pay roll and a commitment agreement has been entered into in connection with 50 per cent of a \$1,000 loan at Detroit.

St. Louis

Head Office. Visits were made to interested Army officers in St. Louis. Between 50 and 75 representatives of business concerns were interviewed and information given with respect to having their names placed on lists to receive invitations to bid. Two of the individuals interviewed were given information as to the procedure they should follow in obtaining financing through their local banks. An informal talk was made to a group of about 25 St. Louis bankers concerning the Defense program. After the talk specific questions regarding the making of loans on the security of an assignment of a Government contract were answered

St. Louis (Continued)

in a round-table discussion which lasted about one and one-half hours. Advice was given to five local banks in connection with specific loans being considered by these banks. No applications and only two inquiries with respect to a 13-b loan in connection with Defense work were received.

Little Rock Branch. Since local banks are not interested, the Mercury Mines, Inc., Little Rock, which has a contract to furnish 750 flasks of mercury to the Government for \$120,000, intends to file application with the Reserve Bank for a loan to finance the contract. Conversations have been had with presidents and vice-presidents of Little Rock banks and other bankers in the district with reference to the Defense program.

Louisville Branch. One industrial plant was visited and information collected and forwarded to the National Defense Commission. One member bank was visited regarding the questionnaire. Correspondence was had with one member bank securing a survey of industrial facilities of the city in which located. A visit was made to the Procurement officer at the Jeffersonville Quartermaster Depot. Three inquiries were received and referred to other Federal Reserve Banks. Eight inquiries were received and answered.

Memphis Branch. One inquiry has been received and referred to the New Orleans Branch. Steps necessary to secure contracts under the Defense program were explained to the secretary of one out-of-town chamber of commerce. Inquiries received from five concerns, all of which have or can obtain sufficient financing, were referred to Mr. Nelson's office. The Second Army has moved its headquarters from Chicago to Memphis and the Commanding Officer has been visited.

Minneapolis

Letters have been mailed to banks, industrialists, chambers of commerce, etc., and a meeting of all bankers from potentially industrial districts has been arranged. A luncheon attended by the heads of the larger Minneapolis Banks was given by the Reserve Bank on December 9 in preparation for this meeting.

While the Ninth District probably will not receive many direct contracts, the Reserve Bank is confident that the District will secure some of the subcontracts. Everyone is giving full cooperation and the Reserve Bank is forcing the issue as rapidly as possible.

Kansas City

After mailing a circular letter to all banks, the Reserve Bank began visiting the larger ones and while all indicated a desire to cooperate, some were critical of what seems to be a duplication of effort on the part of several agencies and many bankers expressed displeasure over the statement of Mr. Jesse Jones relating to a rate of 1-1/2 per cent on loans secured by assignment of Defense contracts.

Through the Reserve Bank's efforts a considerable amount of favorable publicity has been given the Defense program. At Kansas City meetings of the Chamber of Commerce and the Clearing House Association have been attended and the Reserve Bank has cooperated with the district representative of the Bank Management Commission of the A.B.A. Discussions have been had with the newly established Quartermaster's Depot in Kansas City. At the branch cities meetings have been held with chambers of commerce, and at all offices interviews have been had with bankers and manufacturers. Many inquiries have been received from bankers and manufacturers relating to their own particular problems and, in several instances, valuable information has been obtained from the office of the Director of Small Business Activities as well as from Mr. Smead's office. Letters addressed to both offices have received prompt attention.

In not less than four instances the Reserve Bank has been of service in connection with the award or financing of contracts, the total amount involved being approximately \$8,000,000, including one contract for \$7,500,000. In other instances the efforts of bankers have been stimulated as a result of the Reserve Bank's activities although the Bank has had no direct part in financing operations. One banker advised the Reserve Bank that his bank had made loans aggregating more than \$5,000,000 based on Defense contracts.

Dallas

Personal conferences have been held with 35 individuals who called for the purpose of discussing the possibility of obtaining Government contracts and in each instance the Federal Reserve Bank has suggested that Form ND-1 be filled out and forwarded through a local bank. In addition, the Reserve Bank has attempted to put them in touch with the proper Procurement Officer of the Army and Navy. Several callers had subcontracts or purchase orders from primary contractors and sought help in financing their business. In all cases the Reserve Bank advised them to discuss the matter with their own banks but to return in event they did not make arrangements for adequate financing. Inasmuch as none has returned, the Reserve Bank assumes their needs were satisfied.



Dallas (Continued)

Numerous telephone and mail inquiries from banks have been answered with reference to financing Defense contracts.

The Reserve Bank has committed itself for a loan of \$87,000 to the Dallas Cotton Mills Company for new machinery and working capital with which to carry out a Government contract of \$210,000 for furnishing tent material.

Mr. Stroud attended a dinner, given by President Houston of the American Bankers Association for the executive officers of the Association during its regional conference at Ft. Worth, and made a short talk explaining the part of the Federal Reserve System in connection with the Defense program. The representative of the Association's National Defense Loans Committee for the Eleventh District spoke concerning the necessity of commercial banks cooperating in the movement to the fullest extent.

San Francisco