

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

S-21.9



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 28, 1940

Dear Sir:

At the time of our conference in Washington on November 12 and 13, the opinion was expressed that the financing of Defense contracts should be undertaken wherever possible by the commercial banks. Such banks may, however, from time to time be presented with situations where the circumstances surrounding the loan application are such as to make questionable the loan of depositors' funds. It is needless to say, however, that adequate Defense requires adequate financing.

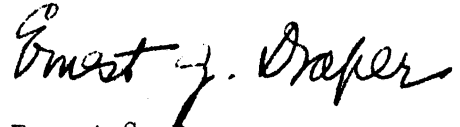
In those cases where the local banks find themselves unable to extend credit to Defense contractors, the Federal Reserve Banks may be called upon to render financial advice or aid. Should the Federal Reserve Bank, either because of statutory limitations or for other reasons, be unable to extend credit, it would be desirable for it to call promptly into conference the Manager of the local Reconstruction Finance Corporation Agency. By bringing the Reconstruction Finance Corporation into the conference before the application is finally disposed of, much valuable time can be saved the contractor.

In each case where the Federal Reserve Bank does not believe it is justified within the law in granting a loan, please advise the Board's Division of Bank Operations forthwith of the action taken and the reasons therefor, and where it is thought desirable we will bring such notice to the attention of the Office of the Director of Small Business Activities. It would be helpful if such notification would contain a statement setting forth (a) the type of financing required by the applicant, (b) the amount sought, (c) the reasons for the declination by the local bank and the Federal Reserve Bank, (d) whether the applicant is a sub-contractor or a primary contractor, (e) the type of Defense orders which the applicant is engaged in executing, and (f) the date on which the case was transferred to the Reconstruction Finance Corporation Loan Agency.

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It is of the utmost importance to the successful operation of the Defense program that in all cases in which private financing cannot be arranged uninterrupted consecutive assistance of the officers of the Federal Reserve Banks and the Reconstruction Finance Corporation Loan Agency be given applicants for loans, and that in considering loan applications the Reconstruction Finance Corporation have the benefit of all applicable information obtained by the Reserve Bank.

Very truly yours,



Ernest G. Draper

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS