

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1941

Dear Sir:

Reference is made to my letters of December 27, 1940, and January 25, 1941, forwarding to you copies of the first and second reports to the Board on the activities of the Federal Reserve System in connection with the Defense Program.

My third report, dated February 14, 1941, has now been submitted to the Board and I am pleased to enclose a copy for your information.

A copy of this letter, with enclosure, has been sent to the Field Representatives at your Head Office and each of your Branches, if any.

Very truly yours,

Ernest G. Draper.

Enclosures 3

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
COPY TO FIELD REPRESENTATIVES

(Enclosure to Presidents and Field Representatives only)

February 11, 1941

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TO Board of Governors SUBJECT: Third Report of Defense
FROM Governor Draper Activities

Reports for the month of January have been received from all Federal Reserve Banks covering activities of their field representatives in behalf of the Defense Program and a summary statement thereof is attached for the Board's information.

There is also attached a summary statement of the record which we maintain of the inquiries received from the Federal Reserve Banks requesting information or assistance with respect to various financial and other problems that have arisen.

The Presidents of the Federal Reserve Banks met in Washington on February 7 for the purpose of discussing with Mr. Mehornay and myself the functions and organization of the Defense Contract Service, and the new Defense setup at the Reserve Banks. The new setup is outlined in detail in the memorandum record of the meeting, copies of which have been furnished Board members and the presidents of all Federal Reserve Banks.

Attachments 2

SUMMARY OF CERTAIN POINTS OF INTEREST CONTAINED IN FEDERAL
RESERVE BANK REPORTS ON ACTIVITIES OF FIELD REPRESENTATIVES
IN BEHALF OF THE DEFENSE PROGRAM DURING JANUARY 1941

Boston

Defense inquiries showed a marked increase during the month of January. Most inquiries are from small companies that do not manufacture any particular type of article desired by either the Army or the Navy. These companies, however, have facilities that might qualify them as subcontractors.

A great number of banks are financing their customers on their general lines of credit without any assignment of contracts. In many cases the larger companies, especially those receiving substantial cash advances under British contracts, are able to finance themselves.

The Governor of each State in New England has appointed a development commission, which has surveyed a large number of plants.

Financial information with respect to a number of companies has been furnished the Defense Commission, the Watertown Arsenal, the Ordnance Department in Boston, and the Board of Governors.

An inquiry has been received from a member bank as to whether the Board will require reports from member banks on the number and amount of Defense loans made and rejected.

Defense loan committees have been organized in each State in New England with the exception of Vermont, which expects to organize such a committee at a meeting on February 12. The Reserve Bank's representative in Connecticut attended eight meetings of clearinghouse groups during January.

New York

Representatives of the Reserve Bank have actively participated in a number of group bank meetings.

Many banks of the District have been in touch with the Federal Reserve Bank and a great deal of consultation has developed by telephone, correspondence, and direct interview, relating primarily to the mechanics and procedures with respect to the various types of advances secured by assignments of claims under both supplies and Emergency Plant Facilities contracts.

New York (Continued)

Comparatively few concerns have inquired regarding the facilities of the Reserve Bank to finance supplies contracts. In such limited cases discussion has developed that the concerns have not ascertained what credit might be forthcoming from their own banks of account. It has been suggested that they carefully review the situation with their own banks and if such credit accommodation is not forthcoming to return to the Federal Reserve Bank for a further review of the case.

Credit investigations have been made for the War Department, Defense Commission, and for three other Federal Reserve Banks.

Philadelphia

The Reserve Bank's representative has attended meetings at which the Defense Program was discussed.

Numerous conferences have been held on Defense activities with representatives of banks and business concerns and assistance has been rendered in both fields in effecting assignments of claims under Defense contracts.

Two visits were made to Washington in connection with a large Army contract let in the Wilkes-Barre area.

Interchange of information with respect to particulars under contracts awarded has been effected by correspondence and telegrams with other regional banks.

Five applications received during January for Defense financing under Section 13b have been approved in a total amount of \$349,000 and one application for \$20,000 has been rejected.

Cleveland

Representatives of the Reserve Bank attended a number of group meetings relating to the Defense Program. Two plant visitations were made for the purpose of discussing the problems of sub-contracting and "farming out" work.

Excellent cooperation has been obtained from the local Ordnance and other Procurement Officers and all problems and questions presented to them have been handled quickly and satisfactorily. Questions referred to Washington also were handled quickly and completely where an answer was available.

Cleveland (Continued)

From the Reserve Bank's point of view it would be highly desirable if matters from the Defense Commission could be transmitted through the Board's office. Reference is made to inquiries such as the one from the Defense Commission, dated January 27, pertaining to _____ Aircraft Incorporated. Prior to receipt of the wire on January 28 canceling the inquiry, contacts had been made with several persons who, it was felt, might assist as subcontractors. One of the Defense Commission's wires also asked for credit data about companies and it would appear preferable to submit information of this character direct to the Board of Governors to use as it sees fit.

Richmond

Representatives of the Federal Reserve Bank have addressed group meetings of bankers held in several states.

Through quick cooperation of the Board's office, the Reserve Bank was able to advise a bank within 24 hours, in response to an inquiry, that the Navy Department stated a clause in a contract indicating that it was not "transferable" had nothing to do with an assignment of the claim. The bank expressed its gratification at such prompt action and asked if this case could be used at group meetings as an illustration of the splendid service being rendered by the Federal Reserve Banks.

Within a few hours the Reserve Bank was able to furnish the Board with information desired about a company that had been awarded a \$6,000,000 contract and had requested an advance of \$400,000.

In response to a request from the Defense Commission the First Vice President visited a large shipbuilding plant and reported thereon.

During January applications for industrial loans aggregating \$1,662,500 were received from six concerns engaged in Defense work. Several banks were interested in participating in these loans to the extent of \$757,125. Judging from inquiries received, it appears that the Reserve Bank will be requested to assist in a substantial number of loans to concerns engaged in furnishing Defense supplies.

Atlanta

No case has come to the attention of the Reserve Bank where a concern having a Defense contract has been unable to obtain satisfactory financing when such assistance was needed.

Atlanta (Continued)

At each of the meetings of the various State bankers associations called for the purpose of discussing Defense contract financing, a representative from the Federal Reserve Bank has attended.

There has been a large volume of general correspondence answering questions regarding the Assignment of Claims Act of 1940 and the lending powers of the Federal Reserve Banks under Section 13b of the Federal Reserve Act.

Several concerns have stated that they were unable to bid for Government contracts because the invitations called for the supply of products in quantities beyond their capacities. Such concerns were anxious to have the size of the contracts reduced to enable them to enter bids. As an alternative, it has been suggested that approval be given to a plan under which an association or group of small businesses whose combined capacities are capable of handling large Government contracts, but who as individuals are too small, might enter bids with the Army and Navy for Defense contracts.

Chicago

The Reserve Bank's field representative attended a number of meetings and discussed the activities of the Reserve Bank relative to the Defense Program.

Credit investigations have been made for the Jeffersonville Quartermaster Depot and for the Assistant Secretary of War.

A survey has been made with respect to potential subcontractor facilities for iron and steel castings.

Acknowledgments have been sent direct to all concerns that have submitted questionnaires relating to facilities for Defense supplies and each concern has been supplied with copies of the Army Purchase Information Bulletin and of the pamphlet entitled "Selling to the Navy".

Bankers on whose behalf the Reserve Bank has had occasion to wire the Board relative to matters requiring attention in Washington have expressed appreciation of the service and the promptness with which results have been obtained. It is believed valuable assistance has been rendered to both bankers and businessmen in connection with many problems that have been presented.

St. Louis

Requests were received for specific information from Defense Commission representatives and officers of the War Department and information was furnished to the extent it was available. Information was also furnished several concerns with respect to the amortization provisions of Section 124 of the Internal Revenue Act.

Assistance was given to banks in preparing the necessary documents in making loans to Government contractors and in obtaining prompt returns of the acknowledged notices of assignment from the War Department.

The principal difficulty encountered during the month was that of trying to find some concrete reply to give to the small manufacturer as to how his facilities might be utilized in the Defense Program. It seems quite apparent that because of the details of administration and inspection involved it is impracticable for primary contracts to be split into small units which could be handled by the smaller manufacturer.

Minneapolis

The Reserve Bank obtained a commitment from a large jewelry manufacturing company to the effect that it would undertake the manufacture of surgical instruments if satisfactory arrangements could be made with the Chicago District, Medical Procurement Office. A small manufacturer of special surgical instruments has agreed to serve as a primary contractor, utilizing the facilities of numerous small shops by subcontracting certain steps in the manufacturing process to each of them. The management of one of the largest printing organizations in the District has shown interest in the manufacture of surgical instruments in part of its shop.

Largely as a result of conversations with Mr. Morris L. Cooke, of Mr. Hillman's office, the mayors of a number of Minnesota cities have formed "Minnesota Defense, Incorporated", the objectives of which are about the same as those of the Reserve Bank. The organization contemplates maintaining a "new business representative" in Washington but does not intend to set up a local office paralleling that of the Reserve Bank, with records of facilities of individual shops.

The Governor of Minnesota announced early in January that he would ask for an appropriation to establish a State Defense Contract Procurement Service. After the Reserve Bank explained its services the State Defense Coordinator announced that "... after careful

Minneapolis (Continued)

consideration of the facilities which the Federal Reserve Bank offers in clearing information on defense contracts, the State effort in this connection would be coordinated with theirs and all duplication avoided."

Arrangements have been made with one of the local papers to publish each day a list of items on which invitations to bid are current.

Through arrangements previously made for a free interchange of information between the Reserve Bank and most of the principal chambers of commerce in the District, the information contained in the National Association of Manufacturers' questionnaires returned to them is available to the Reserve Bank. In view of the discontinuance of the form, "Facilities for Defense Supplies", and the need for some substitute form, the Reserve Bank is considering the use of the N.A.M. form both for office and field use.

Kansas City

Activities in the Defense Program have continued to consist, for the most part, of the dissemination of information to banks, bankers, and small manufacturers in the District.

Information has been furnished the United States Engineers regarding contractors capable of handling construction projects involving \$1,000,000 or more.

Representatives of the Reserve Bank have attended a number of meetings to explain the activities of the System in the Defense Program.

The recently announced Defense Contract Service, Office of Production Management, may provide a solution for problems with which the Reserve Bank has had to deal in connection with an unusually large number of inquiries relating to the utilization of idle plant facilities.

At the Head Office and at all branch offices there have been a large number of out-of-town visitors, mostly bankers, all of whom have made inquiries regarding certain phases of the Defense Program and have expressed their desire to cooperate.

Dallas

Representatives of the Reserve Bank attended several meetings at which the Defense Program was discussed.

Field representatives called upon General Brandt, the Commanding Officer of Randolph Field, to discuss with him the financing of civilian aviation training schools. Other conferences have been held with General Brandt and have resulted in a thorough understanding upon his part of the activities of the Reserve Banks in connection with the Defense Program.

The distribution of Defense work among small businesses continues to be the major problem in the Eleventh District. Advice has been received of several pooling arrangements whereby the participants hope to obtain Government orders or subcontracts in considerable quantities.

The suggestion is made that where special surveys are conducted someone in Washington write to the concerns whose names are submitted so that they may know their names have reached the proper source. Inquiries have been received concerning the results of the two special surveys conducted by the Reserve Bank and the Bank fears that unless some official notice is taken of these surveys business concerns in the District may lose interest in furnishing information of that nature.

San Francisco

The Reserve Bank continued to receive numerous inquiries concerning the Defense Program, all of which it was able to answer without difficulty. The hearty cooperation of local Procurement Officers of the Army and Navy has been of material assistance in handling many of these inquiries.

Representatives of the Reserve Bank attended a number of meetings held to discuss Defense activities.

Very few inquiries concerning financial aid have been received and it is believed that all such inquiries have been handled in a manner satisfactory to those concerned.

As a direct result of efforts of the Seattle Branch a subcontractor engaged in construction of cantonments was able to obtain necessary financing in the amount of \$250,000 from a local bank.

DEFENSE CONTRACT CASES HANDLED BY THE
BOARD'S STAFF THROUGH THE
FEDERAL RESERVE BANKS

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<u>Date</u>	<u>District</u>	<u>Subject</u>
<u>1941</u>		
1/6	Atlanta	Request that we expedite transmittal of contract from the Philadelphia Quartermaster Depot to the contracting company.
1/6	Baltimore	Request from the Office of the Under Secretary of War to report on the reputation and financial condition of a concern which has been awarded a substantial defense contract.
1/6	Philadelphia	Request that we assist a primary contractor to acquire 50,000 pounds of copper in order to enable the concern to complete a Navy contract.
1/7	Chicago	Inquiry as to whether or not a contract stamped "restricted" is subject to assignment.
1/6	Minneapolis	Request that we expedite acknowledgement from a contracting officer of notice of assignment.
1/8	Houston	Request for information as to the approximate date so-called "bankable provisions" of War Department supply contracts will be made effective.
1/8	Chicago	Inquiry as to whether or not the report appearing in the January 4 issue of "Prats Service" relating to a bankable subcontract refers to supply contracts or EPF contracts.
1/8	Chicago	Inquiry as to whether there is any hazard in making an advance on a contract which bears a notation that "funds have not as yet been appropriated."
1/8	Richmond	Offer from a local bank of a tract of land for additional facilities in connection with Remount Station at Front Royal, Virginia.
1/8	Houston	Inquiry as to what, if anything, can be done to assist a textile plant which submitted the low bid on certain material for the Red Cross and started manufacture before being awarded the

<u>Date</u>	<u>District</u>	<u>Subject</u>
1/8	Houston (Continued)	contract. Following the opening of the bids and prior to awarding the contract, the Red Cross changed specifications and invited bids on a different type of item, with the result that the subject company will have on its hands the goods which have been manufactured and cannot be delivered.
1/8	Boston	Request for information as to the meaning of certain preference ratings which appear on Government defense contracts.
1/9	San Francisco	Request for advice as to when payments might be expected by a company engaged in the manufacture of bake ovens for the Quartermaster Corps.
1/10	Cleveland	Request for advice as to information on priority of rights between sureties and assignees.
1/11	Richmond	Request from the Office of the Under Secretary of War to furnish a report on the reputation and financial condition of a concern which has requested an advance on a \$6,000,000 defense contract.
1/11	Richmond	Inquiry as to whether or not a provision of a Navy contract relating to the assignment of the contract prevents the assignment of claims resulting therefrom.
1/13	Richmond	Request for names and titles of Army and Navy officers in charge of construction in Norfolk area and Camp Lee area.
1/13	Boston	Request from the Office of the Under Secretary of Navy to obtain a report on the responsibility and financial condition of a concern requesting an advance on a \$1,000,000 defense contract.
1/14	Boston	Request for information as to whether or not a contract for screening at Camp Devens will be awarded by the War Department or the general contractor.
1/14	Philadelphia	Request for advice as to the best procedure for a subcontractor to follow to be assured that payments due from a prime contractor on a construction project would be remitted to the bank financing the subcontractor.

<u>Date</u>	<u>District</u>	<u>Subject</u>
1/14	Cleveland	Request for information as to the best procedure to be followed by a sub-subcontractor to make application for an EPF contract when no single branch of either the Army or Navy can be designated as receiving the major portion of the concern's output.
1/15	Cleveland	Request from the Office of the Under Secretary of War to report on the reputation and financial condition of a concern which has requested an advance on an \$8,000,000 Ordnance Department contract.
1/14	Chicago	Request for the name of the proper official of the War Department to be communicated with in connection with supplying certain items for use in the construction of cantonment camps.
1/15	Philadelphia	Request that the Federal Reserve Bank be supplied with a copy of the contract entered into by the Ordnance Department and a contracting company, involving approximately \$3,500,000. The Reserve Bank contemplates advancing the concern approximately \$2,000,000.
1/16	Chicago	Inquiry as to whether or not a contract which contains provisions making it nonassignable can be amended so as to permit assignment of payments accruing thereunder.
1/17	Memphis	Request for the names and addresses of the contractors awarded the construction contract for the ammunition loading plant at Milan, Tennessee.
1/17	Cleveland	Request for information as to the type of transaction entered into by the Wright Aeronautical Corporation and the Defense Plant Corporation.
1/17	Minneapolis	Inquiry as to whether or not a concern can qualify for an EPF contract prior to the time it is awarded a defense contract which will make it necessary to increase its facilities.
1/21	Philadelphia	Request for information as to the status of an application addressed to the Secretary of the Navy by a subcontractor for an EPF contract.

<u>Date</u>	<u>District</u>	<u>Subject</u>
1/22	Cleveland	Inquiry as to the correctness of a press statement regarding loans made by banks, secured by EPF contracts; loans made for plant construction by the Defense Plant Corporation; and the number and amount of supply contracts which have been assigned.
1/21	Cleveland	Request for the name of the Army officer designated to be in charge of construction of a T.N.T. plant at Sandusky, Ohio.
1/22	Philadelphia	Request for advice as to whether or not a contract entered into by the Construction Quartermaster, Borinquen Field, Puerto Rico, must be approved by the Secretary of War.
1/23	Chicago	Inquiry as to the proper agency to be communicated with by a group of contractors desiring to bid on defense housing projects.
1/21	Philadelphia	Request from the Office of the Under Secretary of War to obtain a report on the responsibility and financial condition of a concern requesting an advance on a \$280,000 Ordnance contract.
1/24	New York	Request for advice as to the proper charge that a bank should make for handling escrow funds advanced by the War Department on a defense contract.
1/21	Cleveland	Request from the Office of the Under Secretary of War to obtain information as to the responsibility and financial condition of a construction company which is being considered for a substantial cost-plus-a-fixed-fee contract.
1/21	Chicago	Request from the Office of the Under Secretary of War to obtain information as to the responsibility and financial condition of three construction companies which are being considered for a substantial cost-plus-a-fixed-fee contract.
1/21	Minneapolis	Request from the Office of the Under Secretary of War to obtain information as to the responsibility and financial condition of three construction companies which are being considered for a substantial cost-plus-a-fixed-fee contract.

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<u>Date</u>	<u>District</u>	<u>Subject</u>
1/21	New York	Request from the Office of the Under Secretary of War to obtain information as to the responsibility and financial condition of eight construction companies which are being considered for a substantial cost-plus-a-fixed-fee contract.
1/27	Chicago	Inquiry as to whether claims accruing under a purchase order issued by the Government Printing Office are assignable.
1/27	Boston	Request from the Office of the Under Secretary of War for information as to the responsibility and financial condition of a concern requesting an advance payment on an Ordnance contract involving approximately \$2,500,000.
1/27	Cleveland	Request that monies payable to an assignee bank be made payable to the bank only and not to the bank as assignee for the contracting company.
1/27	Cleveland	Inquiry as to the proper officers of the War Department to be communicated with in connection with an EPF contract for a sub-subcontractor.
1/27	Minneapolis	Inquiry as to whether certain cartridge containers for which the Navy Department invites bids are to be of wood or metal construction.
1/27	New York	Request from the Office of the Under Secretary of War for information as to the responsibility and financial condition of a company requesting an advance on a Medical Corps contract involving approximately \$200,000.
1/28	Dallas	Request for names and locations of procurement officers of Army and Navy who purchase athletic uniforms and equipment.
1/30	Chicago	Request from the Office of the Under Secretary of War for information as to the responsibility and financial condition of a concern being considered for a substantial cost-plus-a-fixed-fee contract.
1/30	Minneapolis	Request from the Office of the Under Secretary of War for information as to the responsibility and financial condition of two concerns being considered for a substantial cost-plus-a-fixed-fee contract.

<u>Date</u>	<u>District</u>	<u>Subject</u>
1/30	Cleveland	Request from the Office of the Under Secretary of War for information as to the responsibility and financial condition of a concern being considered for a substantial cost-plus-a-fixed-fee contract.
1/30	New York	Request from the Office of the Under Secretary of War for information as to the responsibility and financial condition of two concerns being considered for a substantial cost-plus-a-fixed-fee contract.
1/31	Chicago	Request that we expedite action on an application to assign claims accruing under a contract entered into prior to October 9, 1940.
1/28	Cleveland	Request for information regarding completion bonds required by the R.F.C. on construction contracts.