



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

125

R-804

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 19, 1941.

Dear Sir:

I am pleased to enclose for your information a copy of my fourth report, dated March 18, 1941, to the Board on the activities of the Federal Reserve System in connection with the Defense Program.

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

Very truly yours,

Ernest G. Draper
Ernest G. Draper

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
COPY TO DEFENSE CONTRACT OFFICERS

(Enclosure to Presidents and Defense Contract Officers only)

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

<u>Date</u>	<u>District</u>	<u>Subject</u>
<u>1941</u>		
2/3	New York	Request from the Office of the Under Secretary of War for information as to the responsibility and financial condition of a concern which has bid on an Ordnance Department contract involving approximately \$2,000,000.
2/3	New York	Request from the Office of the Under Secretary of War for information as to the responsibility and financial condition of a concern which contemplates organizing a subsidiary company to perform a defense contract, which the parent company will guarantee.
2/3	Cleveland	Inquiry as to whether the Defense Plant Corporation could erect a plant on encumbered property.
2/3	Dallas	Request for information as to whether or not an electric power company would be eligible for an EPF contract to extend its power lines to an Army camp.
2/3	Cleveland	Request for the name and title of the proper official of the War Department to be communicated with in connection with Air Corps specifications for aircraft.
2/3	Richmond	Request that we expedite transmittal of a contract entered into by the Navy Department and a contracting concern in Baltimore.
2/3	Boston	Request that we expedite transmittal of a contract entered into by the Navy Department and a contracting concern located in East Boothbay, Maine.
2/4	New York	Request for information as to the proper head of department to give consent to assign claims resulting from a CAA contract entered into July 5, 1940.
2/4	Philadelphia	Request that we expedite an acknowledgment of assignment filed with the General Accounting Office.
2/4	Dallas	Inquiry as to whether or not the acceptance of a bid by the Maritime Commission constitutes a contract, the claims resulting from which are assignable under the Assignment of Claims Act.

<u>Date</u>	<u>District</u>	<u>Subject</u>
2/4	Chicago	Request for information as to whether or not a bank can act as trustee under the Assignment of Claims Act, in order to assure payments to a subcontractor, when such bank does not advance funds to the primary contractor.
2/4	New York	Request from the Office of the Under Secretary of War for information as to the responsibility and financial condition of a contractor awarded an \$80,000 defense contract.
2/5	Oklahoma City	Request from the Office of the Under Secretary of War for information as to the responsibility and financial condition of a contractor awarded a \$5,000,000 defense contract.
2/4	Kansas City	Request that we investigate the operations of an individual who has approached industrial concerns in the Tenth Federal Reserve District, claiming to represent the British Government and authorized to place orders on a 10 per cent commission basis.
2/5	Dallas	Request from the Office of the Under Secretary of War for information as to the ability of management, responsibility, and financial condition of a concern being considered by the War Department to construct an aircraft assembly plant at an estimated cost of \$5,000,000.
2/5	Chicago	Request from the Office of the Under Secretary of War for information as to the ability of management, responsibility, and financial condition of a concern being considered by the War Department to construct an aircraft assembly plant at an estimated cost of \$5,000,000.
2/5	St. Louis	Request from the Office of the Under Secretary of War for information as to the ability of management, responsibility, and financial condition of two concerns being considered jointly by the War Department to construct an aircraft assembly plant at an estimated cost of \$5,000,000.
2/5	Omaha	Request from the Office of the Under Secretary of War for information as to the ability of management, responsibility, and financial condition of two concerns being considered jointly by the War Department to construct an aircraft assembly plant at an estimated cost of \$5,000,000.

-3-

<u>Date</u>	<u>District</u>	<u>Subject</u>
2/5	Kansas City	Request from the Office of the Under Secretary of War for information as to the ability of management, responsibility, and financial condition of three concerns being considered jointly by the War Department to construct an aircraft assembly plant at an estimated cost of \$5,000,000.
2/5	Dallas	Request from the Office of the Under Secretary of War for a report on the management, responsibility, and financial condition of a concern requesting an advance of \$298,000 on a \$1,100,000 Ordnance contract.
2/6	St. Louis	Request for addresses of contracting officers under War Department cost-plus-fixed-fee construction contract.
2/7	Chicago	Request from the Office of the Under Secretary of War for a report on the management, responsibility, and financial condition of a concern requesting an advance of \$675,000 on a \$2,250,000 Ordnance contract.
2/7	Baltimore	Inquiry as to whether or not payments will be made periodically by the Jeffersonville Quartermaster Depot to a contractor, when the goods contracted for are delivered from time to time over a five-month period, or a single payment made upon completion of the contract.
2/6	Philadelphia	Request from the Office of the Under Secretary of War for a report on the management, responsibility, and financial condition of a concern requesting an advance of \$300,000 on a \$1,000,000 Ordnance contract.
2/7	Cleveland	Request for the names of proper officials of the War Department who have final voice in determining the kind of wearing apparel purchased by the Quartermaster Corps.
2/7	Boston	Request from the Office of the Under Secretary of War for a report on the management, responsibility, and financial condition of a concern requesting an advance of \$200,000 on a \$665,000 Ordnance contract.
2/8	Dallas	Request from the Office of the Under Secretary of War for information as to the ability of management, responsibility, and financial condition of a concern being considered as contractor for an air base at an estimated cost of \$1,500,000.

<u>Date</u>	<u>District</u>	<u>Subject</u>
2/8	Minneapolis	Request from the Office of the Under Secretary of War for information as to the ability of management, responsibility, and financial condition of two concerns being considered jointly as contractors for an air base at an estimated cost of \$1,500,000.
2/6	Philadelphia	Inquiry as to the status of an application filed with the Navy Department for an EPF contract.
2/11	New York	Inquiry relating to the application of the Miller Act. Also, inquiry as to whether or not a disbursing officer would undertake to pay to designated subcontractors upon completion of their work specified parts of the amount due the prime contractor.
2/11	Richmond	Request that we expedite transmission of a contract to a primary contractor, awarded by the Bureau of Supplies and Accounts of the Navy Department.
2/11	Cleveland	Request for advice as to whether certain references in the Army Purchase Information Bulletin cover porcelain enamel products used in Army hospitals.
2/11	Baltimore	Request for the name of the successful bidder on 52,000,000 cardboard boxes for Frankfort Arsenal, Philadelphia.
2/11	Philadelphia	Request that we expedite acknowledgment of assignment filed with the Bureau of Supplies and Accounts, Navy Department.
2/14	Cleveland	Request for figures relating to EPF contracts, loans made by the Defense Plant Corporation, banks, and the Reconstruction Finance Corporation.
2/13	Cleveland	Request for names of concerns bidding on buoys for the Navy Department.
2/14	Cleveland	Request from the Office of the Under Secretary of War for information on the management, responsibility, and financial condition of a concern requesting an advance of \$700,000 on a \$2,500,000 Ordnance contract.

<u>Date</u>	<u>District</u>	<u>Subject</u>
2/14	Cleveland	Request from the Office of the Under Secretary of War for a report on the management, responsibility, and financial condition of a concern requesting an advance of \$30,000 on a \$100,000 Chemical Warfare contract.
2/17	Chicago	Inquiry as to who has authority to purchase encyclopedias for the Army and C.C.C. Camps.
2/14	Chicago	Request for information as to terms of a contract awarded by the Holabird Quartermaster Depot.
2/13	Dallas	Inquiry as to the proper official of the War Department to communicate with regarding the sale of property near Camp Walters, Texas, suitable for building sites for officers' quarters.
2/17	Atlanta	Inquiry as to whether or not the prohibition against assignment can be removed from a construction contract involving 300 housing units at Tampa, Florida, for the Public Buildings Administration.
2/17	Philadelphia	Request from the Office of the Under Secretary of War for a report on the management, responsibility, and financial condition of a concern requesting an advance of \$800,000 on a \$2,700,000 Ordnance contract.
2/14	Chicago	Request for the name of the proper official of the Quartermaster Corps to be communicated with regarding the inability of a concern to obtain defense orders.
2/19	Atlanta	Request as to whether or not a concern, if awarded a contract to build a certain type of boat, will be eligible for an EPF contract.
2/18	St. Louis	Request for advice as to the terms of a contract to be awarded a textile mill in Mississippi, which has received a letter of award from the Quartermaster Depot in Philadelphia.
2/19	Chicago	Inquiry as to whether or not a Signal Corps contract, marked "confidential", is assignable under the provisions of the Assignment of Claims Act.
2/19	Dallas	Request for information as to whether under the Assignment of Claims Act, the separate interests of joint contractors under a cost-plus-fixed-fee construction contract may be individually assigned, or whether both contractors are required to join in the assignment.

<u>Date</u>	<u>District</u>	<u>Subject</u>
2/19	Chicago	Inquiry as to whether a partnership contemplating expansion of plant facilities because of defense work as a subcontractor can be granted authority to amortize the cost of such facilities over a period of five years.
2/20	Cleveland	Inquiry as to whether it is the standard practice of the Army and Navy to require the pledge of collateral to secure funds advanced by the Government to primary contractors.
2/20	Chicago	Request that we expedite transmission of a set of blueprints in connection with certain articles required by the Navy to a concern desiring to bid on such articles.
2/20	Chicago	Request for information concerning defense housing projects in the vicinity of Charleston, South Bend, and Bloomington, Indiana.
2/20	Chicago	Request that we expedite action by the Priorities Committee of the Army-Navy Munitions Board in connection with a request for a preference rating from a concern in need of nickel anodes.
2/20	Chicago	Request for information as to the status of a payment due a contractor who has made delivery of articles contracted for by Edgewood Arsenal, Maryland.
2/18	Boston	Request for information from the War Department as to the status of the industrial jewel market.
2/20	Chicago	Inquiry as to the proper official of the Navy to be communicated with in connection with superchargers for Diesel engines.
2/24	Chicago	Inquiry as to the proper officials of the War Department to be communicated with in connection with construction work at Fort Benjamin Harrison, Indiana, and a building located in Indianapolis, leased by the Chemical Warfare, Procurement Division.
2/24	Los Angeles	Request for information as to the procedure to be followed by a contractor desiring to obtain an advance payment on a contract with the Chemical Warfare Service.
2/24	New York	Inquiry as to whether or not under the Assignment of Claims Act a bank can act as trustee for an individual making an advance to a contractor, when the trustee bank, itself, is not advancing funds.

<u>Date</u>	<u>District</u>	<u>Subject</u>
2/24	New York	Inquiry as to whether receipts of notices of assignment of claims in connection with a plant facilities contract should be filed with the Government.
2/24	Atlanta	Request for information as to whether an association of woodworkers can submit bids on Government contracts and then parcel out the work to two or more of its members.
2/24	Chicago	Request that we expedite payment on a contract for certain machinery shipped by the contracting company to Edgewood Arsenal, Maryland.
2/25	New York	Request that we expedite transmission of a contract from the Philadelphia Quartermaster Depot to the contracting company.
2/25	Chicago	Request that we investigate the status of a contract for the construction of temporary barracks at Chanute Field, Illinois.
2/27	Minneapolis	Inquiry as to whether or not the Robinson-Patman Act would operate to establish a price bid by a manufacturer on defense work as a basic price for all Government agencies.
2/26	Chicago	Request from the Office of the Under Secretary of War for a report on the management, responsibility, and financial condition of a concern requesting an advance of \$75,000 on a \$250,000 Signal Corps contract.
2/26	St. Louis	Request from the Office of the Under Secretary of War for a report on the management, responsibility, and financial condition of a concern requesting an advance payment on a \$20,000,000 Ordnance contract.
2/20	Philadelphia	Request that we expedite acknowledgment of a notice of assignment filed with the Chief of the Bureau of Ordnance, Navy Department.
2/27	Cincinnati	Inquiry as to the authority of certain contracting officers to execute Air Corps contracts and as to the existence of unused appropriated funds for the payment of the contracts.
2/28	New York	Inquiry as to whether or not the Maritime Commission has authority to make advance payments up to 30 per cent to primary contractors, similar to the advances made by the War and Navy Departments.

SUMMARY OF CERTAIN POINTS OF INTEREST CONTAINED IN FEDERAL
RESERVE BANK REPORTS ON ACTIVITIES OF DEFENSE CONTRACT OF-
FICERS IN BEHALF OF THE DEFENSE PROGRAM DURING FEBRUARY 1941

133

Boston

Many inquiries have been received with respect to the procedure to be followed in applying for priority ratings. A number of requests have also been received for application forms for priority ratings.

On two different occasions during the month a local bank requested the Reserve Bank to check with the Quartermaster at Philadelphia with respect to delays in receiving contracts executed by that office; also, with respect to payment covering goods shipped under such contracts.

Information with respect to the financial responsibility of certain concerns has been furnished the Harbor Defense, Portland, Maine; the Federal Reserve Bank of Cleveland; the United States Engineer's Office, Providence, Rhode Island; and the Board of Governors.

The Reserve Bank was instrumental in arranging financing for one contractor through a member bank.

The clearinghouse committees in all of the New England states continued to hold their periodical meetings. Banks throughout the industrial centers of the District are making loans and are interested in soliciting and extending further credit to both primary and subcontractors.

New York

In furtherance of the educational program with respect to the financing of Defense contracts, representatives of the Reserve Bank participated in two meetings during the month.

As a result of the extensive publicity given to the activities of the Federal Reserve System in the Defense Program many more direct interviews were handled during the month than heretofore. Cases that appeared to have the most merit and which related more or less directly to the immediate needs of the Army and Navy were advised to file with the Reserve Bank a complete inventory of their machinery and equipment with special emphasis on machine tools. The suggestion was made that such inventory include the name, number, type, age, and present condition of each machine. This program was followed in lieu of the use of the "Facilities for Defense Supplies" form which has been discontinued.

The problems of financing have not been very numerous and all inquiries were settled in a satisfactory manner by means of referring prospective borrowers to their commercial banking connections.

Voluminous correspondence has been handled with respect to all phases of the Defense Program and the staff of the Board of Governors has given very prompt service in the case of certain technical problems which have developed from time to time.

Philadelphia

During the month representatives of the Reserve Bank addressed two meetings relating to the Defense Program.

Several inquiries were received from municipal officials, chambers of commerce, legion posts, etc. regarding the establishment of Defense industries in their localities where, as a rule, idle plant facilities exist.

The Reserve Bank's facilities were extended to a recently established shipbuilding company which was supplied with information as to prospective subcontractors.

Various transactions under Defense contracts have been expedited by the cooperation of local procurement and finance officers. Assistance has been rendered procurement officers through credit investigations of the proposed recipients of contracts.

Cleveland

The number of Defense inquiries increased after the Defense Contract Service was announced. The establishment of priorities in a few lines caused certain companies to request information with respect to the Defense Program.

Representatives of many small concerns called at the bank having been directed there by the Defense Commission or congressional representatives under the impression that the Defense Contract Service is in position to refer to them specific Defense business or to suggest a definite Defense article which they might produce. There is some evidence of impatience and dissatisfaction on the part of small concerns or communities which, having read about "Rehabilitation of Ghost Towns", "Aid to Small Business" and "Seeking Production Facilities wherever Located" have not received any Defense work. Inventorying and cataloging of facilities offered, with the suggestion that when primary contractors request assistance the plants seeking work will be referred to the inquiring concerns, is not entirely satisfactory.

Relatively few primary contractors have requested assistance up to this time which would enable the Reserve Bank to bring to their attention facilities available at small plants.

During February three applications for 13b loans were received. One application involving \$10,000 was withdrawn; the other two were approved.

Richmond

In considering an application for a certificate of necessity, the Office of Production Management requested the Reserve Bank to obtain certain data with respect to sheet metal facilities in the Norfolk area and the information was obtained and transmitted promptly.

The Reserve Bank agreed to join a member bank in a \$250,000 loan to a Baltimore concern which is to manufacture gun shields for the Navy. Inspection of the contract was essential but great difficulty was experienced in having it forwarded to the manufacturer. Through the persistent efforts of the Board's staff the contract was finally obtained.

A substantial number of concerns which have furnished Facilities for Defense Supplies forms have advised that they have received no opportunity to do any contract work. Some of these concerns answered the Reserve Bank's inquiry in January regarding millwork for housing projects.

Of the twelve industrial loan applications, aggregating \$1,951,500, which have been received from concerns engaged in Defense work, eleven, amounting to \$1,921,500 were approved. Financing institution participation in these loans amounted to \$795,625.

Atlanta

The Reserve Bank has agreed to issue a commitment agreement to acquire an interest, not exceeding \$500,000, in a Defense loan being made by several member banks. The Executive Committee has approved an application of a bank for a commitment agreement providing for the acquisition by the Reserve Bank of 50 per cent interest in a Defense loan that the bank intends to make in the amount of \$585,000. Approval has been given to the making of a direct Defense loan not to exceed \$200,000 by the Reserve Bank to a construction company to provide working capital. Prior to approval local banks were approached but they were not willing to participate.

Specifications relative to the construction of 14 warehouses in Georgia were sent to another Federal Reserve Bank on date of receipt of the request for this information. At the request of a Federal Reserve Branch in another district a list of concerns in Tennessee, equipped to bid as prime contractors and subcontractors on Ordnance items, was compiled and forwarded. By communicating with the Board's staff the Reserve Bank was able to advise a bank in Tampa within 48 hours the manner in which an assignment of moneys due under a contract might be arranged to enable the bank to finance the operations of a construction company. The Atlanta office of the Signal Corps was furnished with financial and other information regarding a construction company.

Mr. Neely, recently appointed District Coordinator, called a meeting of the Reserve Bank's Defense Staff, certain Army officers, and others interested in the Defense Program, and outlined his plans under the new organization.

Chicago

It has been gratifying to find that some of the concerns which have sought the Reserve Bank's advice have been successful in securing Government contracts. Advice has been received from various procurement offices that the number of requests for invitations to bid has greatly exceeded expectations. Some manufacturers report that insufficient time is allowed between receipt of an invitation to bid and the opening date of the bid. Firms seeking subcontract work report that as a general rule prime contractors are offering the least desirable portions of their contracts to subcontractors.

A firm which advised that it was loaded beyond capacity on Defense work was furnished the names of over thirty firms in the area equipped to handle the work specified and advice has been received that such information was helpful and that the firm was appreciative of the service rendered.

Various banks report negotiations under way with respect to prospective loans to finance supply contracts and in a number of instances banks report having consummated loans of this type. The Reserve Bank is daily advising with banks and manufacturers concerning the financing of Defense contracts and other features of the Program.

St. Louis

Representatives of the Reserve Bank have participated in a number of Defense meetings.

Assistance was rendered to a bank in obtaining a change in a contract of a prospective borrower to contain the "no set off" clause.

Several concerns were aided in contacting prime contractors with a view to obtaining subcontracts.

Some unfavorable comment was heard because of the delay in appointing the District Coordinator, District Manager, and staff, after the announcement was made; also, because of the delay in furnishing to the Reserve Bank forms for making application for priority rating after announcement was made that the forms were available there. Unfavorable comment has also been heard because of letters received by manufacturing concerns in the Eighth District from Government procurement officers in other parts of the country stating that the District Coordinator and his staff could be contacted at the local Federal Reserve Bank.

Upon the request of the branch of another Federal Reserve Bank, acting on behalf of an Ordnance Officer in the branch city, the Louisville Branch circularized its area for information regarding machine shops, tools, etc.

Minneapolis

Arrangements were made with a primary contractor for the sub-contracting of an estimated million dollars of work. Subsequent to making these arrangements office reports of 140 plants were surveyed by the Reserve Bank's staff, 90 of which were submitted to the primary contractor. The prime contractor selected 35 reports for closer inspection and designated three of them for the first effort. The results have been only moderately satisfactory. One concern found it necessary to postpone acceptance of the subcontract because of impending labor trouble. At the end of three days the material furnished the second subcontractor had not been touched because of a lack of machinists. The experience with the third subcontractor was entirely satisfactory. A large firm in Duluth is willing to subcontract all of the work that all of the machine shops in the Duluth territory can perform but there are not enough skilled men available to operate the machines all of the hours that they are now idle.

Copies of the National Association of Manufacturers' questionnaires returned to chambers of commerce in the larger cities in the district have been obtained and placed in the Reserve Bank's files. Since the N.A.M. form was found to be difficult to use rapidly the Reserve Bank has prepared a form for its own use.

The principal difficulty encountered during the month was lack of definite information regarding future operations. Textile manufacturers have continued to complain regarding the rigidity and complicated nature of specifications and inaccessibility of a sample of the item to be bid on. Other manufacturers continued to complain regarding the short interval between issuance of invitations and the opening of bids.

In connection with the record of cases handled by the Board's staff that accompanies the monthly report to the Board, it would be helpful if the answers to the inquiries raised by the various Federal Reserve Banks were included.

Kansas City

Because of the changed procedure developed at the conference held in Washington on February 7, the activities of the Federal Reserve Bank of Kansas City during the month of February have been materially curtailed.

The Omaha Branch responded to an inquiry from the Board concerning the ability of two Omaha contracting firms to perform and finance a project in the District involving \$5,000,000.

The Oklahoma City Branch reports that there is still a lot of complaint from business men that they are unable to get anything definite from the different procurement offices and other Governmental agencies dealing in the Defense Program.

Dallas

During the month the Reserve Bank received and forwarded to Washington 199 "Facilities for Defense Supplies" forms.

Thirty-five personal interviews were held in connection with various phases of the Defense Program and, in addition, numerous inquiries were received over the telephone from banks and others.

During the month the Texas Bankers Association held four forum discussions on the subject "Financing the National Defense Program". These forums were conducted by a member of the Defense Loans Committee of the American Bankers Association and the Reserve Bank's representative.

San Francisco

Interest in the National Defense Program was stimulated somewhat by the publicity given to the establishment of the Defense Contract Service. The Pacific Coast office of the National Association of Manufacturers has made its facilities available to the Reserve Bank. Copies of reports of surveys of plant facilities made by several of the larger chambers of commerce in California have been forwarded to the Reserve Bank as well as a report of survey of 300 machine shops in Utah which was made available by the Utah Manufacturers Association.

Owners of many small machine shops have expressed an interest in obtaining subcontracts and as a preliminary step have furnished the Reserve Bank with descriptions of their facilities.

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

As a result of a request from a local procurement officer, the Reserve Bank was instrumental in arranging through a bank for the financing of a small (\$12,500) contract in which time was a factor.