

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-273

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 30, 1941



Dear Sir:

In my letter, S-253, of March 11, 1941, you were advised that District and Division Contracting Officers of the Engineer Corps would request your Bank and Branches, if any, to furnish them from time to time with confidential reports regarding contractors being considered for construction projects. In view of the recent declaration by the President of an unlimited National Emergency, it is the desire of the War Department that everything possible be done to expedite the approval by the Under Secretary of War of requests for advance payments received from concerns awarded contracts by the War Department for supplies or construction.

Under date of June 30, 1941, a memorandum was addressed to the Chiefs of the Supply Arms and Services, by direction of the Under Secretary of War, signed by Brigadier General John W. N. Schulz, Director of Purchases and Contracts, a copy of which is enclosed. This memorandum advises that all contracting officers of the Supply Arms and Services of the War Department should support their approval of requests for advance payments by sufficient information regarding the financial position of contractors to enable the Under Secretary to pass upon such requests without further investigation, except in unusual cases. The memorandum further suggests that such information can best be obtained from the Federal Reserve Banks and Branches.

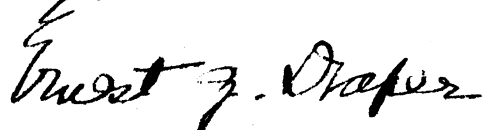
Following conferences with officials of the Office of the Under Secretary of War, it is suggested that the report of a Federal Reserve Bank contain information as to the management and reputation of the contracting company, a current balance sheet, and

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a monthly forecast of disbursements for material, labor, etc., and the expected receipts for goods delivered under the contract. Such information will be helpful in determining the amount needed by the concern during the period of performance of the contract. It is also suggested that after reviewing the figures and making any necessary investigation, your Bank include in its report, if practicable, an opinion as to whether or not the advance payment requested should provide adequate funds for performance of the contract.

Your cooperation will be very much appreciated.

Very truly yours,



Ernest G. Draper.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

C O P YWAR DEPARTMENT
OFFICE OF THE UNDER SECRETARY
Washington, D.C.

FC-F 167

June 30, 1941

MEMORANDUM for The Chief of the Air Corps
The Chief, Chemical Warfare Service
The Chief of Coast Artillery
The Chief of Engineers
The Chief of Finance
The Judge Advocate General
The Chief, National Guard Bureau
The Chief of Ordnance
The Quartermaster General
The Chief Signal Officer
The Surgeon General

SUBJECT: Advance Payments to Contractors on Supply Contracts

1. In view of the declaration by the President of an unlimited National Emergency and in order that everything possible be done to expedite the approval of the Under Secretary of War to requests for advance payments, it is considered desirable that the following be brought to the attention of contracting officers:

- a. Approval of requests for advance payments will be expedited if an approved form of advance payment provisions (whether in the contract or in a supplemental agreement) is used and as few variations as possible are made therefrom. Enclosed are approved forms of Article and of supplemental agreement providing for advance payments on fixed price contracts, as well as an approved form of supplemental agreement providing for advance payments on cost-plus-a-fixed-fee contracts.

These approved forms of advance payment provisions are not new but are identical with those promulgated by various supply arms and services. It is not intended hereby to restrict the use of other forms now in general use.

The request may be accompanied by the exact advance payment provisions to be used; may state that an

approved form is to be used; or may state that an approved form is to be used with variations, stating the reasons for the variations.

- b. If the contract requires unusual provisions as a result of additional financing arrangements with the Reconstruction Finance Corporation, a Federal Reserve Bank or private financing institutions, the form of advance payment agreement, if the chief of the supply arm or service so desires, may be negotiated by the Office of the Under Secretary of War in collaboration with the office of the chief of the supply arm or service concerned, or with the contracting officer.
- c. In cases where a contractor has more than one contract with a supply arm or service and segregation of materials and separate accounting between the contracts are difficult or impracticable, the agreement may provide for advance payments on one or more than one of the contracts and may permit the use of such advance payments on any or all of the contracts.
- d. The question of adequacy of security for advance payments is one requiring the exercise of sound discretion and there is no requirement that an advance payment bond be furnished in every case. Contracting officers will not require such bonds unless in their judgment the circumstances of the particular case so require.
- e. It is necessary to the approval of a request for advance payments that the Under Secretary of War be satisfied that the amount of the advance payments together with the contractor's own funds and such other financing as he can obtain will be sufficient to enable him to perform the contract. In furtherance of the policy of decentralization, contracting officers should support their approval of requests for advance payments by sufficient information regarding the financial position of contractors to enable the Under Secretary of War to pass upon such requests without further investigation except perhaps in unusual cases. Such information can best be obtained from the Federal Reserve banks, the facilities of which have already been made available to contracting officers for this purpose. (See letter of this office to the chiefs of supply arms and services, dated December 9, 1940, Subject: "Field Contacts with Representatives of Federal Reserve Banks in connection with Procurement and Supply".) Particularly in cases of contractors of doubtful financial standing, a report from the Federal Reserve bank should accompany the request for advance payments.

f. Requests for advance payments may be made at any time and may be presented for approval either during the negotiation of a contract, at the time the contract is submitted for approval, or at any time thereafter, as will best assist in expediting the entering into and accomplishment of the contract.

2. Nothing herein contained shall be construed to in any way abrogate the provisions of letter of this office to the chiefs of supply arms and services, dated August 20, 1940, Subject: "Advance payments to contractors for supplies or construction".

By direction of the Under Secretary of War:

John W. N. Schulz
Brigadier General, U. S. Army
Director of Purchases and Contracts

Encs. (3)

Form of advance payment
Article for fixed price contracts
Form of supplemental agreement
for fixed price contracts
Form of supplemental agreement
for cost-plus-a-fixed-fee contracts