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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date: August 6, 1941

To: The Files

Subject:

From: Mr. Coe

MC.

After correspondence with Mrs. Hamlin (see letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from Volume 232 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 232

Page 3
Memo to Mr. Hamlin from Mr. Wyatt re revised circular re discounts for individuals, partnerships and corporations.

Page 4
Memo to Board from Mr. Wyatt re liability of directors of national bank for losses on loans made while reserves are deficient.

Page 17
Memo to Mr. Morrill from Mr. Van Fossen re direct loans to individuals, etc.

Page 63
Memo to Gov. Meyer from Mr. Goldenweiser re Credit Situation. (CONFIDENTIAL)

Page 65
Memo to Mr. Morrill from Mr. Van Fossen re direct loans to individuals, etc. (CONFIDENTIAL)

Page 113
Memo to Mr. Morrill from Mr. Van Fossen re direct loans to individuals, (CONFIDENTIAL)

Sec Bu

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date July 21, 1932.

To Mr. Hamlin

From Mr. Wyatt.

Subject: Revised circular re discounts for individuals, partnerships and corporations.

Suggestions and comments have now been received from all of the Federal reserve banks regarding the tentative draft of a circular on the above subject which was sent to them on July 16; and there is attached for your information a revised draft of the circular and alternative drafts of Sections II and III, thereof. The Board may wish to consider this matter at its meeting tomorrow, in view of the fact that the President signed the Bill containing this amendment today.

The most important question to be determined is whether this business shall be confined to discounting for individuals, partnerships, and corporations eligible paper of their customers actually owned by them or whether the Federal reserve banks should be permitted to make advances direct to individuals, partnerships and corporations on their promissory notes indorsed and otherwise secured to the satisfaction of the Federal reserve banks.

Another question upon which there is considerable difference of opinion is whether Federal reserve banks should be forbidden to discount paper for individuals, partnerships and corporations if the proceeds are to be used to pay off existing indebtedness to other banking institutions. The revised regulations provide that this may not be done, "except with the permission of the Federal Reserve Board." No

Especial attention is also invited to Section VI of the circular which deals with the rate of discount.

A summary of the suggestions received from the various Federal reserve banks is being prepared and I hope to have it ready for distribution early tomorrow morning.

Respectfully,

Walter Wyatt

Walter Wyatt
General Counsel

3

VOLUME 232
PAGE 3

July 21, 1932.

SUBJECT: DISCOUNTS FOR INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS.

TO ALL FEDERAL RESERVE BANKS:

The third paragraph of Section 13 of the Federal Reserve Act, as amended by the Act of July 21 , 1932, provides as follows:

> "In unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank: Provided, That before discounting any such note, draft, or bill of exchange for an individual or a partnership or corporation the Federal reserve bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, partnerships, or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe."

In view of the fact that the power conferred by this provision can be exercised only in "unusual and exigent circumstances", the Federal Reserve Board has not prescribed any formal regulations governing the exercise of this power; but the requirements of the law and the procedure which the Federal Reserve Board will expect to be followed are outlined below for the information of the Federal reserve banks and any individuals, partnerships or corporations that may contemplate applying to them for discounts.

I. LEGAL REQUIREMENTS.

It will be observed that, by the express terms of the law:

1. The power conferred upon the Federal Reserve Board to authorize Federal reserve banks to discount eligible paper for individuals, partnerships or corporations may be exercised only:

(a) In unusual and exigent circumstances,

(b) By the affirmative vote of not less than five members of the Federal Reserve Board, and

(c) For such periods as the Federal Reserve Board may determine;

2. When so authorized, a Federal Reserve Bank may discount for individuals, partnerships or corporations only notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks, under other provisions (Sections 13 and 13(a)) of the Federal Reserve Act. (Such paper must comply with the applicable requirements of Regulation A of the Federal Reserve Board);

3. Paper discounted for individuals, partnerships or corporations must be both (a) indorsed and (b) otherwise secured to the satisfaction of the Federal reserve bank;

4. Before discounting paper for any individual, partnership or corporation, a Federal reserve bank must obtain evidence that such individual, partnership or corporation is unable to secure adequate credit accommodations from other banking institutions;

5. Such discounts may be made only at rates established by the Federal reserve banks, subject to review and determination by the Federal Reserve Board; and

6. All discounts for individuals, partnerships or corporations are subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe.

II. PERMISSION OF THE FEDERAL RESERVE BOARD.

1. The Federal Reserve Board will not pass upon specific applications for discounts by individuals, partnerships or corporations; but will consider applications by Federal Reserve Banks for general permission to discount eligible paper for individuals, partnerships and corporations, and will base its decisions on the question whether in its judgment there are unusual and exigent circumstances which justify the granting of such permission.

2. Permission of the Federal Reserve Board to discount eligible notes, drafts, and bills of exchange for individuals, partnerships and corporations must be applied for by a Federal reserve bank in writing or by telegram, and the application must contain a full statement of the unusual and exigent circumstances which, in the judgment of the Board of Directors of the applying Federal reserve bank, justify such action.

3. Such permission, when granted, will be for periods specified by the Federal Reserve Board, not exceeding six months.

4. Requests for renewals or extensions of such permission must be made in the same manner as an original application.

III. FOR WHOM PAPER MAY BE DISCOUNTED.

Limit to advances to members [illegible]
Substitute
[illegible]

When authorized by the Federal Reserve Board, the Federal reserve banks may discount for individuals, partnerships or corporations, eligible commercial, industrial and agricultural paper actually owned by such individuals, partnerships or corporations and bearing their indorsement.

The term "corporation", as used in this circular, includes live stock loan companies, agricultural credit corporations, finance companies and similar corporations; and eligible paper owned by such corporations may be discounted with their indorsement. No paper may be discounted for nonmember banks under the terms of this circular.

A Federal reserve bank should not discount paper for individuals, partnerships or corporations unless it appears that the proceeds of such discounts will be used to finance current business operations and not for speculative purposes, for permanent or fixed investments, or for any other capital purpose. Except with the permission of the Federal Reserve Board, no such paper should be discounted if it appears that the proceeds will be used for the purpose of paying off existing indebtedness to other banking institutions. This would relieve banks primarily.

IV. APPLICATIONS FOR DISCOUNT.

Each application of an individual, partnership or corporation for the discount of eligible paper by the Federal reserve bank must be made in writing on a form furnished for that purpose by the Federal reserve bank and must contain, or be accompanied by, the following:

1. A statement of the circumstances giving rise to the application and of the purposes for which the proceeds of the discount are to be used;

2. A statement of the efforts made by the applicant to obtain adequate credit accommodations from other banking institutions, including the names and addresses of all other banking institutions to which application for such credit accommodations has been made, the dates upon which such applications were made, whether such applications have been definitely

refused and the reasons, if any, given for such refusal;

3. A list of all banks with which the applicant has had banking relations, either as a depositor or as a borrower, during the preceding year, with the approximate date upon which such banking relations commenced and, if such banking relations have been terminated, the approximate date of their termination;

4. Financial statements of the applicant and the principal debtors on the paper offered for discount;

5. Evidence sufficient to satisfy the Federal reserve bank as to (a) the legal eligibility of the paper offered for discount under Section 13 or Section 13(a) of the Federal Reserve Act and Regulation A of the Federal Reserve Board and (b) its acceptability from a credit standpoint;

6. A list and description of the collateral or other security offered by the applicant;

7. An agreement by the applicant, in form satisfactory to the Federal reserve bank, (a) to furnish to the Federal reserve bank, when requested, additional financial statements, copies of recent auditors reports, or other credit information, (b) to submit to audits, credit investigations or examinations by representatives of the Federal reserve bank at the expense of the applicant, whenever requested by the Federal reserve bank, and (c) to furnish additional security whenever requested to do so by the Federal Reserve Bank; and

8. Any additional information or assurances which the Federal reserve bank, in its discretion, may require.

V. GRANT OR REFUSAL OF APPLICATION.

Before discounting notes, drafts, or bills of exchange for any individual, partnership or corporation, the Federal reserve bank shall ascertain to its satisfaction by such means as it may deem appropriate:

1. That the financial condition and credit standing of the applicant justify the granting of such credit accommodations;

2. That the paper offered for discount is acceptable from a credit standpoint and eligible from a legal standpoint;

3. That the security offered is adequate to protect the Federal reserve bank against loss;

4. That there is a reasonable need for such credit accommodations; and

5. That the applicant is unable to obtain adequate credit accommodations from other banking institutions.

A special effort should be made to determine whether the banking institutions with which the applicant ordinarily transacts his banking business or any other bank to which the applicant ordinarily would have access is willing to grant such credit accommodations.

In discounting paper for individuals, partnerships or corporations, a Federal reserve bank should not make any commitment to renew or extend such paper or to grant further or additional discounts.

VI. RATES OF DISCOUNT.

When authorized by the Federal Reserve Board to discount eligible paper for individuals, partnerships and corporations, a Federal reserve bank, subject to the review and determination of the Federal Reserve Board, shall establish special rates for such discounts. Ordinarily such rates should be slightly higher than the rates charged on similar classes of paper by commercial banks to which applicants ordinarily would have access. e.g. slightly higher than 12% !

VII. LIMITATIONS.

Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount for any one individual, partnership or corporation paper amounting in the aggregate to more than one per cent of the paid-in capital stock and surplus of such Federal reserve bank.

VIII. ADDITIONAL REQUIREMENTS.

Any Federal reserve bank which obtains permission from the Federal Reserve Board to discount eligible paper for individuals, partnerships and corporations may prescribe such additional requirements and procedure respecting such transactions as it may deem necessary or advisable; provided that such requirements and procedure are not inconsistent with the provisions of the law and the Board's regulations and with the terms of this letter.

By order of the Federal Reserve Board.

Chester Morrill,
Secretary.

III FOR WHOM PAPER MAY BE DISCOUNTED.

When authorized by the Federal Reserve Board, a Federal reserve bank may discount for individuals, partnerships or corporations:

(a) Eligible commercial, industrial and agricultural paper actually owned by such individuals, partnerships or corporations, bearing their indorsement, and otherwise secured to the satisfaction of the Federal reserve bank; or

(b) The promissory notes of such individuals, partnerships or corporations bearing satisfactory indorsements by parties other than the makers and otherwise secured to the satisfaction of the Federal reserve bank; provided, that the Federal reserve bank is given satisfactory assurances that the proceeds will be used by the makers in their own business for commercial, agricultural or industrial purposes within the meaning of the Federal Reserve Act and Regulation A of the Federal Reserve Board.

The term "corporation", as used in this circular, includes live stock loan companies, agricultural credit corporations, finance companies and similar corporations; but it does not include either member or nonmember banks. The promissory notes of live stock loan companies, agricultural credit corporations, finance companies and similar corporations would not ordinarily be eligible for discount, because the proceeds ordinarily would be used in the first instance for finance purposes and not for commercial, agricultural, or industrial purposes within the meaning of the Federal Reserve Act and the Board's Regulations; but eligible paper owned by such corporations may be discounted with their indorsement.

A Federal reserve bank should not discount for individuals, partnerships or corporations either their own promissory notes or paper owned by them, unless it appears that the proceeds of such discounts will be used to finance current business operations and not for speculative purposes, for permanent or fixed investments, or for any other capital purpose. Except with the permission of the Federal Reserve Board, no such paper should be discounted if it appears that the proceeds will be used for the purpose of paying off existing indebtedness to other banking institutions.

(NOTE: If the Board decides to permit Federal reserve banks to make direct advances to individuals, partnerships and corporations, another alternative would be to omit Section III of the circular altogether and allow the circular to remain silent on this point. This would have the advantage of not inviting applications for direct advances, but it probably would increase materially the number of inquiries which the Federal Reserve Board and the Federal reserve banks would have to answer.)

(Alternative for Section II
of Circular Letter)

II. AUTHORIZATION BY THE FEDERAL RESERVE BOARD

The Federal Reserve Board, being satisfied that there are in all Federal reserve districts unusual and exigent circumstances which justify such action, hereby authorizes all Federal reserve banks for a period of six months from the date of this letter to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations, and this circular.

C3

Sept. 6, 1932.

The Federal Reserve Board

Mr. Wyatt, General Counsel.

Liability of directors of national bank for losses on loans made while reserves are deficient.

For the Board's information, there is attached hereto a copy of an opinion on the above subject rendered August 23, 1932, by the United States District Court for the Western District of Michigan in the case of Holman v. Cross, wherein the Court held that the directors of a national bank are not liable for losses sustained on loans made while the reserves of the bank were deficient, if there was no actual negligence in the making of such loans; because it could not be said that such losses were sustained "in consequence of" such violation of the law.

Another question of interest to the Federal Reserve Board, which was raised in this case but which was not decided by the Court, was whether the sixth paragraph of section 2 of the Federal Reserve Act is still in force or whether it expired by limitation oneyear after the enactment of the Federal Reserve Act.

The Division of Insolvent National Banks of the Office of the Comptroller of the Currency is considering the question whether to appeal this case to the Circuit Court of Appeals; and this office will keep in touch with the matter, render such assistance as may be possible, and keep the Board advised of all important developments.

Respectfully,

Walter Wyatt,
General Counsel.

Copy of opinion
attached.

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VOLUME 232
PAGE 4

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September 7, 1932

Mr. Morrill

Direct loans to Individuals, etc.

Mr. Van Fossen

Attached hereto is a statement showing the number of applications of individuals, partnerships and corporations for loans not granted by the Federal reserve banks to September 3, 1932, including a tabulation of the reasons for not granting the loans applied for. It will be noted that the Federal reserve banks of Cleveland, Chicago, Dallas and San Francisco have not reported any applications refused because of ineligibility of the paper offered which, of course, indicates that these banks have eliminated such applications from their reports (Board's letter of August 30 requested Chicago to include such applications in the future). The Federal Reserve Bank of Cleveland also has not reported any applications for loans not granted for the reason that the loans were placed with other banks, although Mr. DeCamp in his letter of August 27 states "thus far our best results have been obtained through our ability to effect banking contacts."

It will be noted that of 277 applications refused, as shown in the attached statement, 146 were because of unsatisfactory security; 122, paper not eligible; 4, loans placed with other banks; 3, present credit deemed adequate; and 2, denial of credit by other banks not shown.

Direct loans to individuals, partnerships and corporations granted by the Federal reserve banks to September 6 are as follows:

Federal Reserve Bank of New York

Miller-Cummings Company	New York, N. Y.	$75,000
New Jersey Flour Mills Company	Clifton, N. J.	25,000

P. 17

VOLUME 232
PAGE 17

Federal Reserve Bank of Minneapolis

Kiddie Gym Company	Minneapolis	$7,500
H. C. Ervin & Company	St. Cloud	5,680
Bricelyn Canning Company	Bricelyn, Minn.	60,000

Following is a summary of correspondence received during the week from the various Federal reserve banks regarding their activities and those of the Banking and Industrial Committees in connection with the survey to ascertain the extent to which there may be demands for loans which are not being met by other banking institutions and which could be granted properly by the Federal reserve banks under the provisions of the amendment to Section 13 of the Federal Reserve Act.

PHILADELPHIA: Preliminary summary of survey concerning availability of credit to industrial concerns from banks show that:

(1) 391 of 450 replies state no unusual difficulty has been experienced in borrowing sufficient working capital required for the production and marketing of goods.

(2) 269 of 329 state they are not aware of deserving applicants being unable to secure credit.

(3) 74 of 127 state that in their judgment the applicants refused loans were not entitled to receive the credit desired.

(4) 138 of 188 state the general line of credit has not been reduced by a larger amount than the decline in the volume and prices of goods would warrant.

(5) 61 of 108 state that the reduction in credit has not resulted in curtailment of business activity.

(6) 264 of 296 state that banking facilities have been adequate to take care of all reasonable requests for loans.

(7) 274 of 324 would not buy additional raw materials in advance of needs if credit were available.

(8) 255 of 332 have no out-of-date equipment which they would normally replace.

(9) 195 of 298 report no improvements and additions that would normally be undertaken.

(10) 253 of 278 state such improvements have not been delayed for lack of credit.

(11) 124 of 148 state that availability of credit would not cause them to proceed with replacements, improvements or additions.

CLEVELAND: It is believed that bankers in some of the Ohio counties in which cattle raising and feeding is largely carried on are becoming more disposed to handle cattle loans. If this more liberal attitude is assumed by bankers throughout the cattle section, it would probably involve the acceptance, by the Reserve bank of nonmember bank paper through member banks.

RICHMOND: Replies to questionnaire received to September 3 show that of a total of 52 concerns only 6 believe that they or others known to them are likely to make application within the next few months for direct loans from the reserve bank, and only 7 report knowledge of specific cases within the past 60 days of refusals by local banks to make similar loans.

Replies from West Virginia and North Carolina indicate that mortgage loans and resumption of normal lending by commercial banks are especially needed.

ATLANTA: Submits report by states of survey conducted by Federal reserve bank. The principle facts brought out are:

1. Banks in cities of New Orleans, Jeanerette, La., New Iberia, La., Meredian, Hattiesburg, Miss., Vicksburg, Biloxi, Birmingham, Montgomery, Mobile, Anniston, Ala., Atlanta, Macon, Rome, Columbus, Augusta, Albany, Savannah, Athens, Griffin, Ga., Jacksonville, Miami, Tampa, Pensacola,

Nashville and Chattanooga, are generally speaking in position to take care of all legitimate demands and are so doing.

2. Localities mentioned as not offering adequate banking and credit facilities are: Lake Charles, Hammond, Lafayette, Welsh and Jennings in Louisiana; Jackson, Miss.; Orlando, Fort Pierce, Fort Myers and Melbourne in Florida; and Knoxville and Bristol in Tennessee.

The conclusions drawn from the results of the survey are stated as follows:

CONCLUSIONS

1. That in most of the cities in our district the banks will handle all paper necessary up to the requirements of the amendment.

2. That in some of our cities the Reserve Bank could well supplement in large lines the credit facilities of the banks of those cities.

3. That in some cities, due to individual banking situations, there are not proper credit facilities and the Reserve Bank can be of real service in such cities through operation of the amendment.

4. That in certain industries credit requirements may be too large to be handled wholly by local banks and that the Reserve Bank could well supplement this credit.

5. That the demands of commerce are largely being cared for and it will be only in exceptional cases where Reserve Bank facilities will be required.

6. That the demands of agriculture for the present season are practically at an end, except in the matter of marketing commodities, and in this respect the Reserve Bank facilities can be advantageously used.

7. That the requirements of the amendment are such that paper of the class authorized will generally be handled by the banks of this district.

8. That requirements of the district are for capital rather than credit of the character authorized by the amendment.

9. That the majority of loans offered the Reserve Bank will not measure up to the tests of eligibility and acceptability required.

10. That proper credit requirements under the act will be fully met by the Reserve Bank where banking facilities for such loans are lacking.

11. That the general limitations upon general credit named in this report exist in this district and the correction of them would be of advantage to industry and commerce in this district, and it is felt that the Industrial and Banking Committee can be of great aid in this respect.

Federal reserve bank is expecting a call from an official of the First National Bank of Tarpon Springs, Florida, and a representative of the sponge industry relative to extension of credit to individuals, etc., engaged in that industry, as the outcome of correspondence on the subject with Senator Fletcher and Congressman Drane.

CHICAGO: Anticipates that the Regional Agricultural Credit Corporations when they begin to function will extend necessary feeder loans the need for which is becoming imminent. Banking and Industrial Committee has taken steps to designate individuals to head the various sub-committees of the general organization, as outlined in the Washington Conference. It is probable that through these committees further effort will be made to discover demands for credit among merchants and manufacturers that are not being satisfied, but general opinion is that many legitimate and worthy demands will not be found. A great deal of interest is being manifested in the new Home Loan Banks and it is anticipated that there will be a good deal of disappointment on the part of those who have mortgages coming due and which are in danger of foreclosure, because of inability to obtain anywhere near enough funds under a present appraisal to liquidate the existing mortgages.

There is still a good deal of idle money in the larger banks, particularly in Chicago, and it is certainly understood in this district that there is ample money available for legitimate enterprise.

Efforts in connection with feeder loans are being continued and between the resources of the Reserve Bank, the Intermediate Credit banks, the Regional Agricultural Credit Corporation and outside efforts it appears that the situation will be taken care of. No other special unsatisfied demands for credit which is justified have been disclosed.

ST. LOUIS: Expresses opinion that credit is not being denied at this time by banks in St. Louis, Louisville, Evansville, Little Rock and Memphis to parties where loans could be made directly by the Reserve Bank. Apparently the best of the applications received by the Reserve Bank could not be classed higher than "business risks." There is a distinctly better feeling in the district in respect to business in the past 30 days, particularly in the past week.

MINNEAPOLIS: 347 replies received to questionnaire sent out July 29 to 2,220 business firms in Minneapolis, St. Paul and Duluth. 208 replies made no criticism of credit supplies affecting themselves, their customers, or the trade in general, and 54 others had no complaint to offer regarding their own credit supply.

Of the remaining 85 replies, most of which were from small firms, in the majority of instances the data furnished indicated that loans had been refused for legitimate reasons. On the basis of replies received to this questionnaire, adequate commercial bank credit is available for nearly all firms having a legitimate claim upon it in all three of these cities. A deficiency in capital of many smaller business houses is apparent which cannot be met by ordinary means. The construction industry complained of the shortage of city mortgage money, and automobile dealers and distributors of oil heaters, electric washing machines and refrigerators complained about the difficulty of financing installment sales.

Minutes of the August 18 and 22 Meetings of the Banking and Industrial Committee include the following:

> According to Congressman Johnson of South Dakota, 26 national labor union leaders have agreed to a five-day week with five days' pay. It is estimated that this will furnish part time employment to 4,000,000 men.
>
> Governor of Federal reserve bank states that Reserve Bank is taking no action on applications for loans in the farming country where banking facilities are insufficient because the regional Agricultural Credit Corporation will be able to make such loans on a more satisfactory basis.
>
> Statement that railroads have more equipment in good order than they need and are unwilling to pay the 5 per cent interest on borrowed money for additional equipment, repairs, etc., not necessary at the present time, with a view to stimulating business.
>
> Agreement to urge amortization plan for repayment of seed loans owed by northwestern farmers.
>
> Discussion of proposed "Allotment Plan" in connection with suggestion that steps be taken to improve prices of farm products.
>
> Agreement to urge a tariff on imports from the Philippines in order to protect domestic producers of sugar, butter, fats, etc.

KANSAS CITY: There is a growing tendency for banks to avoid borrowings or to keep borrowings at the lowest possible level. This policy is probably not restricting credit to a great extent at this time, but it is feared that it may have a restrictive influence during the next two or three months, when many farmers normally buy livestock for feeding or for wintering.

DALLAS: Replies to questionnaire received to September 3 express opinion that there will be no occasion for direct loans by the Reserve Bank since prospective borrowers who can meet the conditions imposed can obtain credit locally, also that general feeling is that commercial banks are fairly liberal considering the business situation.

SAN FRANCISCO: Industrial and Banking Committee's letter to similar committees in other Reserve districts describes organization set up in the San Francisco district to induce employers through personal contact to adopt the policy of "work spreading."

APPLICATIONS OF INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS FOR LOANS NOT GRANTED BY THE FEDERAL RESERVE BANKS - TO SEPTEMBER 3, 1932

	Number		Reasons for not granting loans applied for					Amount
	Week ending Sept. 3	Total to Sept. 3	Loans placed with other banks	Present credit deemed adequate	Paper not eligible	Paper not satisfactorily secured	Denial of credit not shown	of loans declined#
Boston	1*	6	-	-	3	3	-	$14,240
New York	16	72	2	3	15	52	-	2,386,700
Philadelphia	6*	21	-	-	16	5	-	438,350
Cleveland	1	4	-	-	-	4	-	11,500
Richmond	3	35	-	-	26	9	-	813,063
Atlanta	9	75	1	-	47	27	-	893,578
Chicago	4*	17	-	-	-	17	-	98,600
St. Louis	7*	20	-	-	4	16	-	204,000
Minneapolis	3	8	-	-	2	6	-	80,000
Kansas City	4*	12	-	-	9	1	2	30,333
Dallas	2*	4	-	-	-	4	-	15,000
San Francisco	1	3	1	-	-	2	-	62,000
Total	57	277	4	3	122	146	2	5,047,364

*Week ending August 27.
#Approximate; amounts sometimes not stated.

Mr Hamlin

See Bk

September 17, 1932

To: Governor Meyer

From: Mr. Goldenweiser

CONFIDENTIAL

THE CREDIT SITUATION

Demand and supply of reserve funds

During the past year this country lost $900,000,000 of gold that went abroad and in addition $630,000,000 of currency was withdrawn, largely for hoarding. Both the demand for gold from abroad and for additional currency at home constituted demands on the member banks for reserve bank funds. These demands were met by the use of funds derived from the following sources: $1,100,000,000 from an increase in Federal reserve credit, all of which was supplied through the purchase of Government securities by the reserve banks; $200,000,000 from a decrease in deposits of foreign central banks with the reserve banks;[1/] and $150,000,000 from a decrease in member bank reserve balances. These figures indicate that the increase in reserve bank credit during the year restored to the member banks somewhat less than the total amount of reserve funds employed in meeting the gold and currency drains, and that the difference was met by the member banks by drawing on their reserve balances to the extent of $150,000,000. Notwithstanding this decrease in reserve balances, however, the member banks on September 7 had excess reserves of over $300,000,000, because their reserve requirements had diminished much more than their reserves, owing to the great reduction in deposits. Decrease in net demand plus time deposits of member banks for

---

1/ Last autumn foreign central banks had $207,000,000 on deposit with the reserve banks; this year the amount is $11,000,000. When the deposits were built up here during the summer of 1931, the effect was similar to that of gold exports, while the subsequent release of these funds was an offset to gold exports, similar in effect to a release of earmarked gold.

VOLUME 232
PAGE 63

63

the past year approximated $6,000,000,000 and required reserves diminished sufficiently to enable member banks to reduce their reserves by $150,000,000 and still have over $300,000,000 of excess reserves.

A table follows showing factors of demand for reserve bank credit both for the last year and for the three-year period of the depression. If the entire three-year period be considered, the decrease in the monetary gold stock was only $250,000,000, since during the first two years of the depression there was a growth in the stock of gold that was exceeded by the loss during the

RESERVE BANK CREDIT AND PRINCIPAL FACTORS IN CHANGES
(In millions of dollars)

	Sept. 7, 1932	Change from -- A year ago	Change from -- Three years ago
Reserve bank credit	2,319	+ 1,103	+ 905
Monetary gold stock	4,105	- 895	- 259
Money in circulation	5,725	+ 633	+ 934
Foreign deposits at reserve banks	11	- 196	+ 4
Member bank reserve balances	2,142	- 148	- 218
Excess reserves	323	+ 253	+ 288

past year by this amount. When this three-year period is considered as a whole, the growth in reserve bank credit of about $900,000,000 has been approximately equal to the growth in money in circulation, which represents primarily hoarding, while the decrease in member bank reserves has been approximately equal to the decline in the stock of gold. During this period member bank indebtedness diminished by $550,000,000 and the reserve banks' holdings of bills by $190,000,000, while security holdings of the reserve banks increased by $1,700,000,000. It would appear, therefore, that funds arising from security purchases of the reserve banks since the depression began have been used to the extent of $750,000,000 in the reduction of the reserve banks' holdings of discounted and purchased bills and to the extent of $950,000,000 in meeting the increased demand for currency.

From the point of view of appraising the effects of Federal reserve credit policy since the autumn of 1929, the significant fact is that at a time of abnormal demands for gold from abroad and for currency at home open-market purchases by the reserve banks have enabled the member banks to meet these demands and at the same time to reduce their indebtedness to the reserve banks from the high level prevailing in the autumn of 1929, as well as to build up a considerable volume of excess reserves. All of these developments have been in the direction of easing credit conditions and, therefore, of facilitating for the member banks the financing of business recovery.

Change in direction of gold flow

Improvement in financial conditions has become pronounced in recent months. Since the middle of June, when the large outflow of gold came to an end, there has been a return of gold amounting to about $200,000,000, shown by countries below:

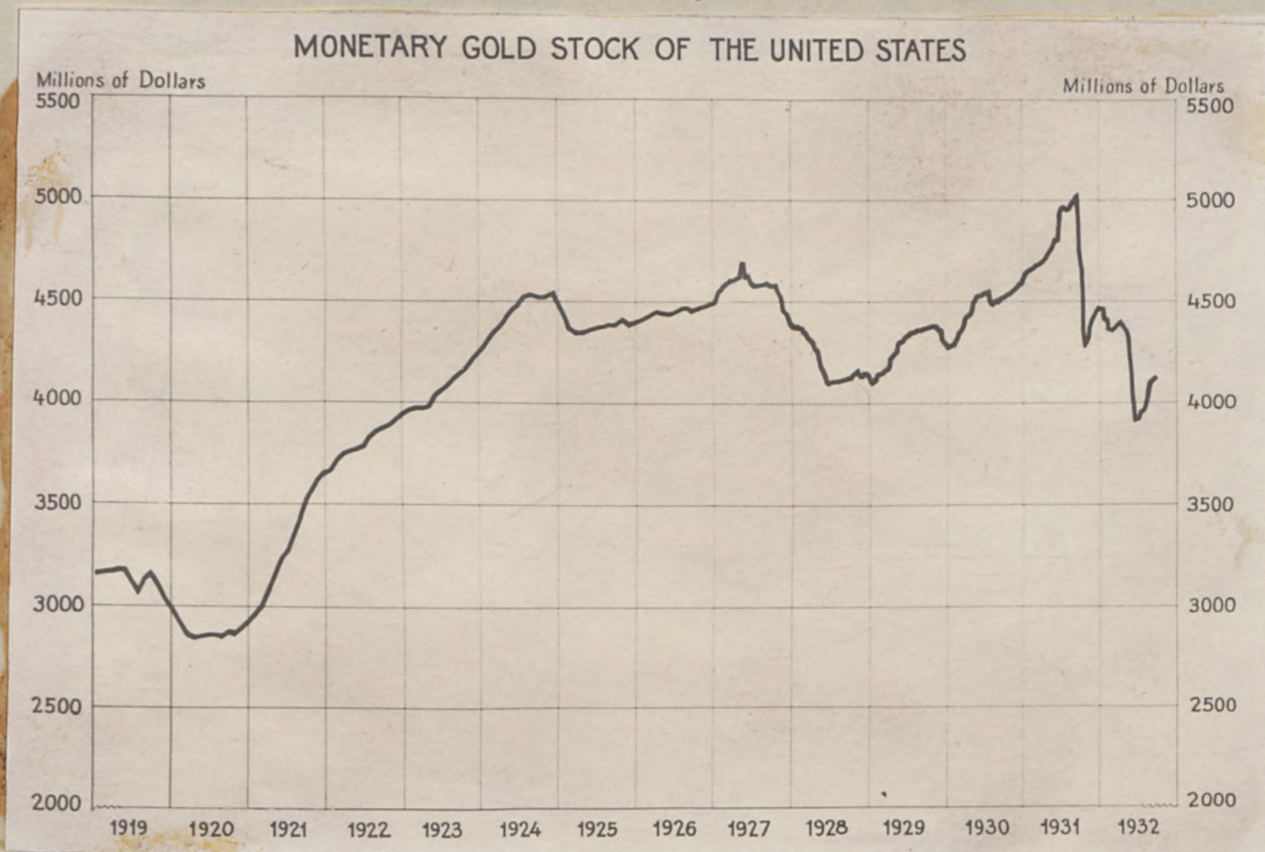
ADDITIONS TO UNITED STATES GOLD STOCK:
JUNE 16 TO SEPTEMBER 14, 1932 1/

(In thousands of dollars)

	Total	$ 219,250
From:	France	108,854
	Czechoslovakia	22,519
	China	14,110
	Canada	14,013
	Belgium	10,021
	Mexico	4,451
	Japan	4,197
	England	3,948
	Australia	2,947
	Switzerland	2,032
All other		32,158

1/ Including net imports and releases from earmark.

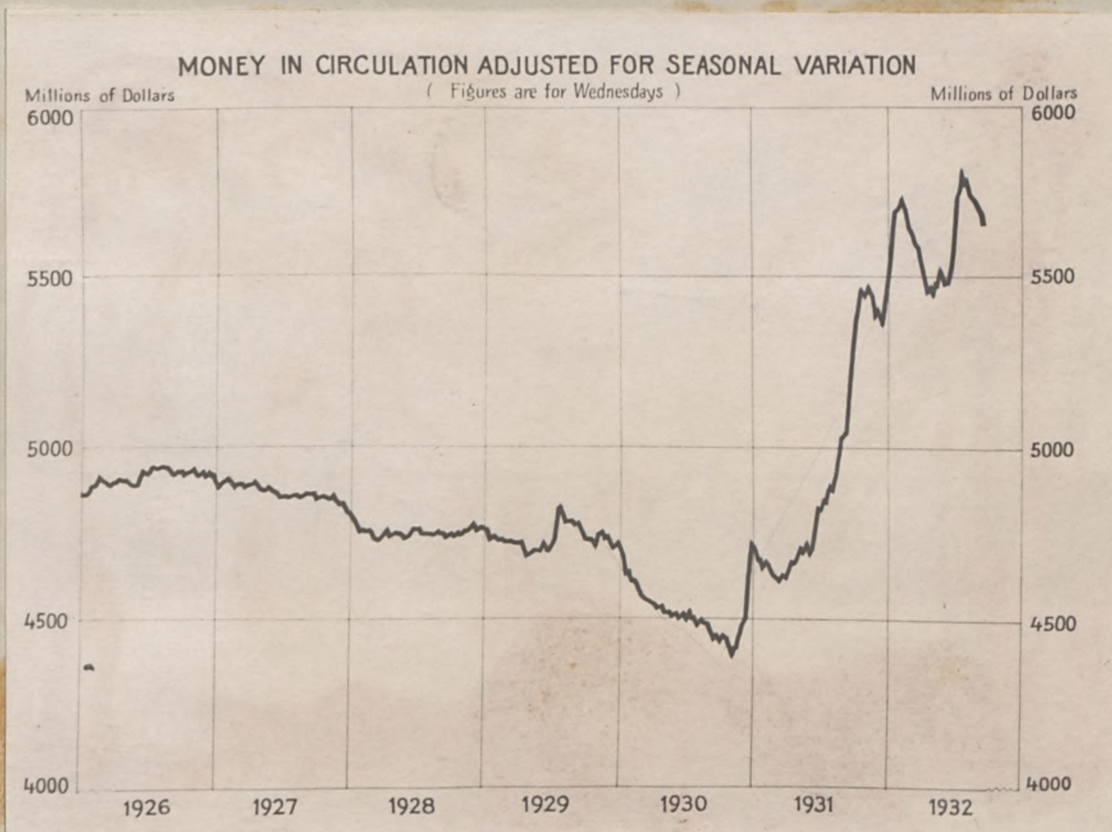
The accompanying chart shows the stock of gold in the United States since the removal of the war embargo. The course of gold holdings indicates that whenever there were losses of gold to this country they were followed by an import movement which not only restored the amount lost but



continued for some time beyond that point. That was true of the loss of gold in 1919-1920, which represented accumulations of balances by the Orient and South America during the period of the gold embargo; of the loss in 1925, which represented chiefly takings by the Reichsbank of a part of the proceeds of the Dawes loan in gold; of the loss of $600,000,000 in 1927-1928, following upon an extremely easy money policy in this country and a large volume of foreign loans. The recent inflow of about $200,000,000 of gold, after a loss of about $1,100,000,000, indicates that the forces that tend to bring gold to this country are still at work. Withdrawals from this country have represented repatriation of funds by a few special interests, chiefly central banks, while at other times commercial and financial transactions of this country with the outside world have steadily resulted in an inflow of gold. This inflow is due to the fact that on balance of both visible and invisible items this country receives more from abroad than it pays out; and that as a safe place for keeping funds and as a place to invest funds with a chance of an increase in value this country offers greater opportunities than any other. Confidence in the dollar was temporarily shaken last September and October and again last June, but this lack of confidence has not survived for long the certainty that the financial position of this country is stronger than that of others. It is probable that gold will continue to come to this country, and with the reduction of foreign balances to a level probably below actual needs, there is nothing on the horizon to indicate a possibility of large-scale gold exports.

Decrease of hoarding

Another item of improvement has been the return flow of currency from hoarding. A chart showing the amount of money in circulation, adjusted for seasonal variation, is attached. The rise in money in circulation



from the autumn of 1930 to this summer, with seasonal influences eliminated, amounted to something like $1,500,000,000, notwithstanding a decrease in the volume of business and in the level of prices. Much of this currency went into hoards, although an indeterminable amount represents increased need for cash by communities that are deprived of banking services, and an increased use of cash resulting from charges for small accounts and from the tax on checks. The increase in hoarding has not been continuous. There was an improvement in the early part of 1931 and again in the late part of that year after the President's program of reconstruction was announced. A large return flow, amounting to about $250,000,000, began last February when the Reconstruction Finance Corporation got under way. But this summer the heavy loss of gold and banking disturbances in Chicago and elsewhere once more led to a crisis of confidence, so that hoarding increased again and reached a maximum in the third week in July. Since that time there has been a decrease of about $175,000,000 in the estimated amount of hoarded money.

Decrease of bank failures

The recent return flow from hoards has accompanied a definite decline in the number of bank failures. From an average of 36 a week during the first three weeks of July the number of bank failures has gradually declined, and for the last week for which figures are available the number of banks that failed was 12. The decrease in bank failures from about 75 per week last January represents the effects of the work of the Reconstruction Finance Corporation, as well as of agreements in numerous localities between banks and depositors to refrain from rapid withdrawals. Liberal policies pursued by the Comptroller of the Currency and State banking authorities in permitting banks to carry their portfolios at better prices than current market quotations also have been a factor. The decline in bank failures, therefore, is in part based on conditions that are temporary in nature. Whether the decline will be permanent depends on whether a genuine improvement in underlying conditions will develop. The rise in bond values is one such condition which has already occurred. The advance in commodity prices, scattered widely over different classes of commodities, is another such element. The banks are not yet out of the woods, but there appears to be the possibility of consolidating the gains that have been achieved and of substituting permanent elements for the temporary devices that have been keeping the banks afloat.

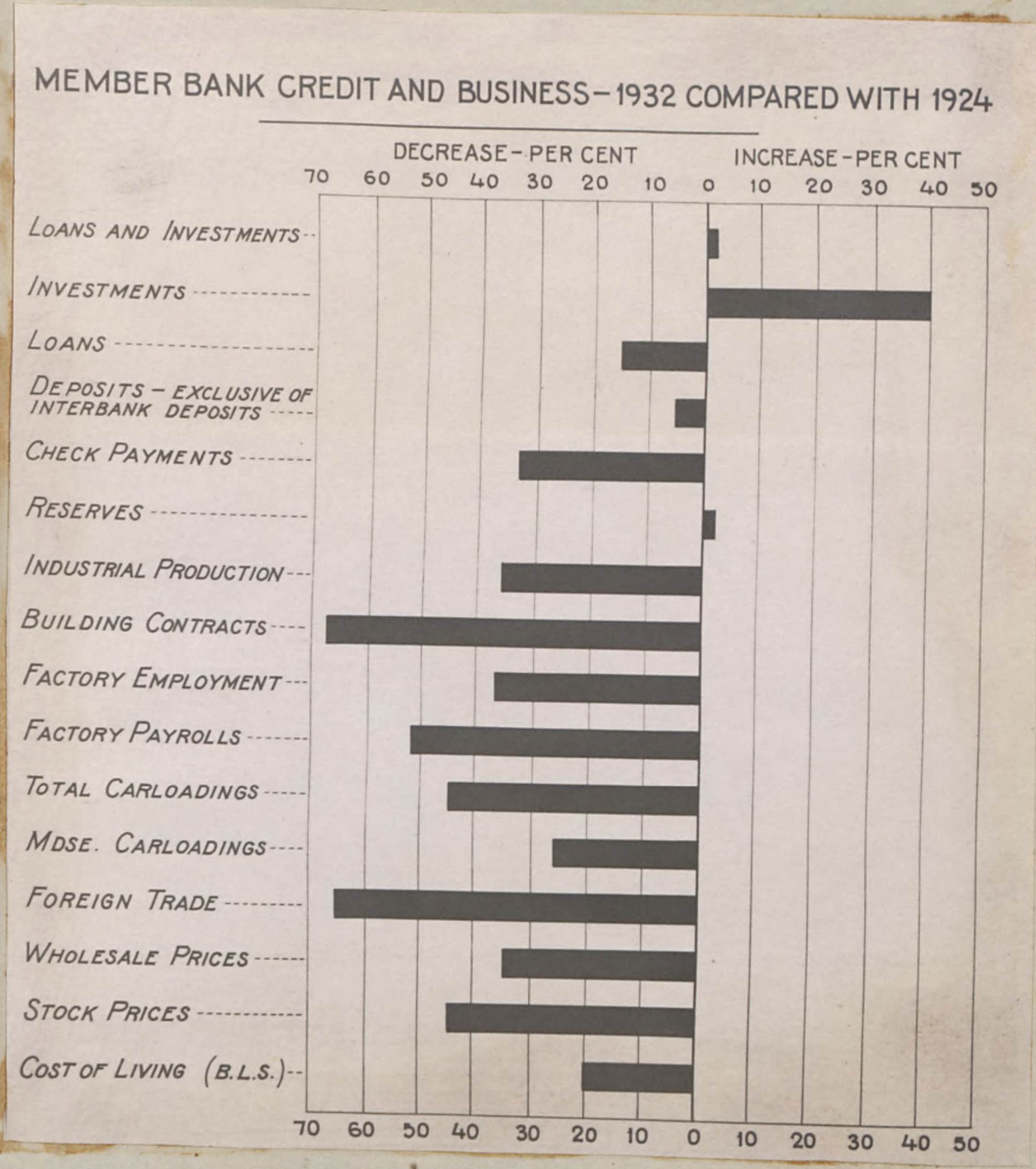
Lag in business and volume of credit

There are, however, a number of elements in the business and credit situation which so far have not shown marked improvement. Industrial activity, after the largest decline in the history of the country--from 125 per cent of the 1923-1925 average in June, 1929 to 58 per cent in July, 1932--advanced by about 2 points in August, reflecting chiefly substantial increases in the textile industries. Sales of textile products to distributors increased sharply in July and August, accompanying price increases for raw materials, and production in the woolen, silk, cotton, and rayon industries increased considerably from the unusually low levels prevailing in the spring. Reports indicate that there was an upswing in shoe production in August, but that it was only of a seasonal character. In the automobile industry a further decline in output was reported and in the steel and lumber industries output in August showed none of the usual seasonal increase. In the first half of September activity at steel mills increased slightly. In the building industry changes in the total value of contracts have been largely of a seasonal character since early in the year, reflecting some further decline in residential building offset by an increase in public works. During August the volume of freight traffic handled by the railroads showed a seasonal increase, which is in contrast to this period last year. In July the number of employees at factories, coal mines, and on the railroads was smaller than in earlier months of the year. Figures on employment in August are not yet available for the United States as a whole, but reports on factory employment in New York State show a greater than seasonal increase in that state during the month.

Indecisive progress in business activity has been paralleled by a lack of marked growth in bank credit. Bank loans have continued to decline, though there has been some increase in bank investments. Total loans and investments of banks in leading cities show a rise from the low point reached on July 20, the increase being entirely at banks in New York City. The decline of bank deposits has been arrested and of late there has been some increase in deposits, reflecting chiefly an increase in balances held by banks with other banks and, therefore, not reflecting a growth in loans and investments.

Comparison with 1924

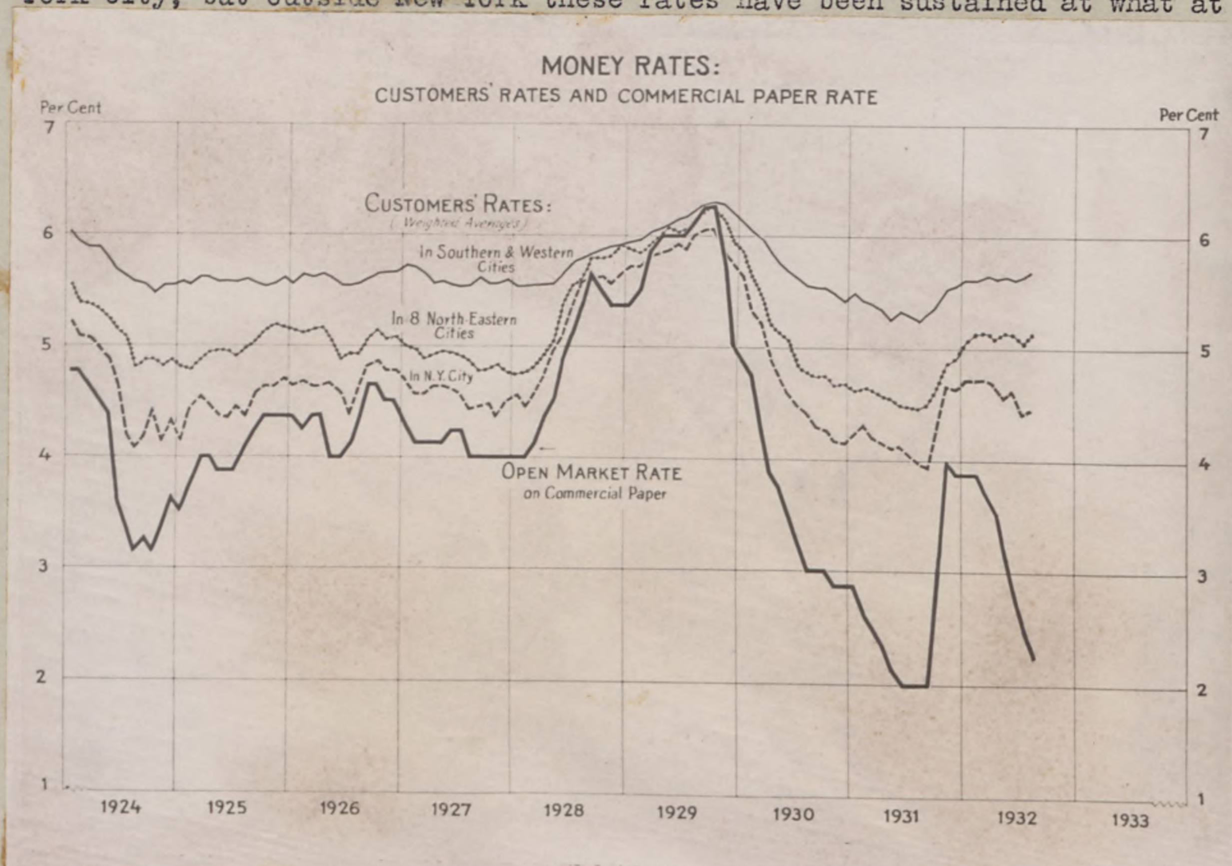
Notwithstanding the great decline in bank credit during the past two years, the volume of member bank loans and investments at this time is about the same as eight years ago in 1924, while practically all the other elements in the economic picture show a drastic reduction since that time. This is brought out by the following chart:



It is apparent from this comparison that the total outstanding volume of bank credit is adequate for the present needs of business and for financing a considerable recovery. It is the inactivity of credit, as shown by low velocity of turnover, that reflects the extreme low level of business activity and the unsatisfactory functioning of the credit machinery.

Money rates

Member banks in the financial centers have been out of debt to the Federal reserve banks for a number of months and indebtedness of banks in other leading cities and outside has been declining in recent weeks. In addition, member banks have had a large volume of excess reserves. The reserve position of member banks, therefore, has been such as to offer no obstacles to business recovery. Money rates have been low, particularly in the open market. Rates charged to customers have also shown some decline in New York City, but outside New York these rates have been sustained at what at



the present time appears to be a high level--above 5 per cent in eight cities in the North and East, and above 5 1/2 per cent in the Southern and Western cities. These high levels of customer rates should be viewed in connection with the many reports received by the reserve system indicating inability of many business enterprises to obtain credit for legitimate needs. A chart on customer rates compared with open-market rates is attached.

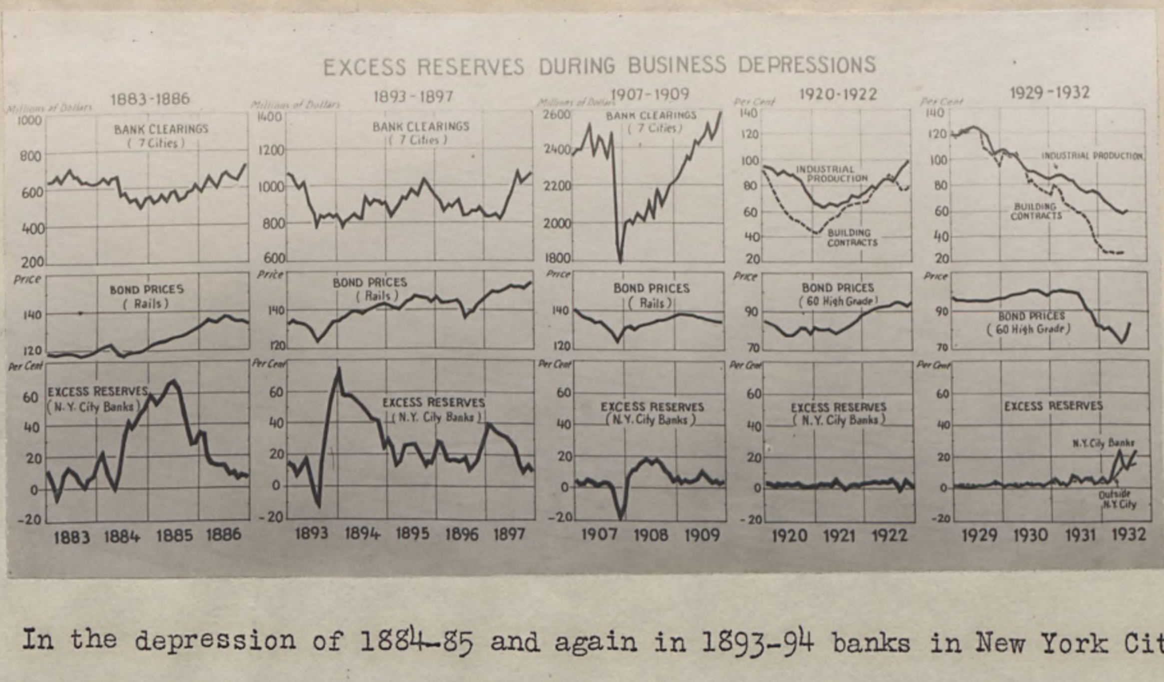
Sources of reserve funds

Viewing the situation from the point of view of immediate developments that are likely to affect member bank reserves, there are at present three sources of reserve bank funds available to member banks independent of additional use of Federal reserve credit. These sources are: gold imports, return flow of currency from circulation, and issue of national bank notes. From these three sources member banks have derived more than $300,000,000 of reserves since the beginning of July. Gold imports are likely to continue, the issuance of additional national bank notes is also likely to continue on a moderate scale, and it is to be hoped that the flow of currency from hoards will not be interrupted. It is possible, however, that the seasonal demand for currency between now and the end of the year will absorb a large part of the money released from hoards. The situation, therefore, is one in which in the immediate future the reserves of member banks are likely to be fed by moderate amounts of gold imported from abroad and by issues of national bank notes. These reserves are likely at first to accumulate as excess reserves, although some diminution of member bank indebtedness, which is about $400,000,000, may also be expected. It would seem probable from the evidence at hand that in the absence of any action by the Federal reserve banks member banks in the next few months will have excess reserves of not less than $350,000,000, tending to increase from week to week.

Excess reserves in times of depression

Accumulation of excess reserves by commercial banks, particularly in New York City, has been usual during periods of business depression in the United States, with the exception of the depression of 1920-21, when liquidation of indebtedness to the reserve banks absorbed the funds derived from the return flow of currency and from gold imports.

A chart is inserted showing the relation of excess reserves to the course of business in times of depression. It shows for the pre-war depressions of 1884-85, 1893-94, and 1908, excess reserves of clearing house banks in New York City, the course of bond prices, and the course of bank clearings in seven cities outside New York. For the post-war depressions of 1920-21 and 1930-32 the chart shows excess reserves, bond prices, industrial production, and building contracts.



In the depression of 1884-85 and again in 1893-94 banks in New York City accumulated reserves that were 60 per cent above requirements and in 1908 the excess amounted to 20 per cent for several months. The excess reserves of 22 per cent held by New York City banks at the present time and of 15 per cent held by banks outside New York City are not unusually large in comparison with reserves held during pre-war depressions.

Before the establishment of the reserve system, however, bank reserves functioned in a different way. In the depression years at that time New York banks, which performed the functions of central banks for the country, could not obtain funds in any considerable amount from outside sources, and when the panic was over they had no indebtedness to repay. Consequently, imports of gold and the return of currency as business activity declined both went to increase the banks' reserves. They accumulated very large excess reserves for brief periods, and as financial markets and business became more active, these reserves were quickly drawn down. With the reserve system in operation the periods of expansion that have preceded depressions have caused a growth in member bank indebtedness, so that when funds began to flow to the banks because of diminished demand, as was the case in 1921, they were absorbed in the reduction of indebtedness to the reserve banks. In the present depression there was no return flow of funds, however, because of gold exports and hoarding. In these circumstances the funds both for the reduction of indebtedness and for the accumulation of excess reserves were made available to the member banks through open-market purchases by the reserve banks.

C 63

Mr. Hamlin Sec Bd

September 17, 1932
B-842

CONFIDENTIAL

TO: Mr. Morrill

FROM: Mr. Van Fossen

SUBJECT: Direct Loans to Individuals, etc.

Attached hereto is a statement showing the number of applications of individuals, partnerships and corporations for loans not granted by the Federal reserve banks to September 10, 1932, including a tabulation of the reasons for not granting the loans applied for.

It will be noted that of 376 applications refused, as shown in the statement, 188 were because of unsatisfactory security; 176, paper not eligible; 6, loans placed with other banks; 3, present credit deemed adequate; and 3, denial of credit by other banks not shown.

Direct loans to individuals, partnerships and corporations granted by the Federal reserve banks to September 16 are as follows:

Federal Reserve Bank of New York

Friedman & Sons, Neckwear Co., Inc.	New York, N.Y.	$25,000
Joseph H. Meyer Brothers	New York, N.Y.	10,000
Miller-Cummings Co., Inc.	New York, N.Y.	100,000
New Jersey Flour Mills Co.	Clifton, N. J.	25,000
Scaramelli & Co., Inc.	New York, N.Y.	10,000
S. Shuff Sons, Inc.	New York, N.Y.	5,000

Federal Reserve Bank of Atlanta

Richmond Hosiery Company	Rossville, Ga.	50,000

Federal Reserve Bank of Minneapolis

Bricelyn Canning Co.	Bricelyn, Minn.	78,112
H. C. Ervin Co.	St. Cloud, Minn.	5,680
Kiddie Gym Co.	Minneapolis, Minn.	7,500

VOLUME 232
PAGE 65

365

Following is a summary of correspondence received during the past week or 10 days from the various Federal reserve banks regarding their activities and those of the Banking and Industrial Committees in connection with the survey to ascertain the extent to which there may be demands for loans which are not being met by other banking institutions and which could be granted properly by the Federal reserve banks under the provisions of the amendment to Section 13 of the Federal Reserve Act:

PHILADELPHIA: Preliminary summary of survey concerning availability of credit to industrial concerns from banks based on 1,283 replies to the bank's questionnaire shows that:

(1) 1,004 of 1,207 concerns report no unusual difficulty has been experienced in borrowing sufficient funds for working capital required for the production and marketing of goods.

(2) 750 of 953 concerns stated that they are not aware of deserving applicants being unable to secure credit.

(3) 184 of 372 concerns state that in their judgment the applicants refused loans were not entitled to receive the credit desired.

(4) 387 of 580 concerns state that the general line of credit has not been reduced by a larger amount than the decline in the volume of prices of goods would warrant.

(5) 199 of 364 concerns state that the reduction in credit has not resulted in curtailment of business activity.

(6) 729 of 836 concerns state that banking facilities have been adequate to take care of all reasonable requests for loans.

(7) 681 of 836 concerns state they would not buy additional raw materials in advance of needs if credit were available.

(8) 635 of 854 concerns state they have no out-of-date equipment which they would normally replace.

(9) 510 of 781 concerns report no improvements and additions that would normally be undertaken.

(10) 642 of 727 concerns state such improvements have not been delayed for lack of credit.

(B-842)

(11) 286 of 355 concerns state that availability of credit would not cause them to proceed with replacements, inprovements or additions.

<u>CLEVELAND</u>: Reserve bank is carrying on quite a successful campaign among banks in district as to what can and what cannot be done under the provisions of the amendment. Arrangements are being made for a reserve bank officer to visit group meetings of the various state bank associations at which he will be given an opportunity to make a brief discussion of and to answer questions in connection with operations under the amendment.

RICHMOND: Replies to the August 4 questionnaire received to September 10 show that out of a total of 54 concerns only 6 believed that they, or others known to them, are likely to make application within the next few months for direct loans from reserve banks and only 7 reported knowledge of specific cases within the past 60 days of refusals by local banks to make similar loans.

CHICAGO: Applications for direct loans are decreasing and now largely consist of inquiries relative to the Home Loan Bank or for loans for ineligible purposes. A number of requests have been received which appear to be worthy from the standpoint of furnishing employment but the only basis for credit is predicated on the operating plants and the paper is distinctly ineligible at the Reserve bank. Generally speaking, confidence in the banks is gradually returning and their defensive attitude is changing to a more hopeful one and banks in many localities are showing more willingness to take care of legitimate credit demands. Member banks in the district now have something over $100,000,000 in excess reserves, the larger part of which is in Chicago. A good deal of interest is being manifested in the Home Loan Discount Bank and also in the Regional Agricultural Credit Corporations and both will probably find a large number of applications awaiting them when their organizations are announced. Delay in organization of the Regional Agricultural Credit Corporations is unfortunate in view of inability of feeders to obtain loans from banks in certain communities.

The survey by personal interview with banks in the livestock sections in regard to feeder loans has been completed for the States of Iowa and Illinois and is now being made in Indiana and Wisconsin. Of 68 banks interviewed in Iowa, 52 stated that they would take care of legitimate demands for stock loans, 14 of these banks anticipating that it would be necessary to borrow from the Federal reserve bank in order to accommodate the demand. Of the remaining banks, 3 impose very strict requirements on feeder loans; 4 probably will be unable to make such loans, depending upon circumstances such as the trend of their deposits, etc.; and 9 are reported as not being able or willing to make additional loans. Of 40 banks interviewed in Illinois, 23 stated that they would take care of all legitimate demands, 5 of the banks expressing a willingness to borrow from the Federal reserve bank for the purpose, and 17 of the banks were reported as being unable or unwilling to grant additional loans.

Preliminary reports from Wisconsin indicate that there will be little demand for feeder loans and of 23 banks interviewed in Indiana 12 expect to meet all reasonable demands while most of the others state demand will be met by contract feeding, government agencies, or through livestock commission firms. In a number of instances, Iowa banks also stated that the demands of cattle feeders for credit would be met by arrangements for contract feeding or by loans from commission merchants, the Federal Intermediate Credit Bank or the Regional Agricultural Credit Corporations. Similar comments in the case of Illinois were much more numerous.

ST. LOUIS: Further evidence received confirms the belief, as previously expressed, that no credit is being denied which could properly be granted by the banks in the district. Bankers in Louisville are reported to have had a verbal agreement that each should take care of its share of border line cases, whenever it could be done with a reasonable degree of conservatism. and in their effort to be a help in this respect some accounts were acquired that have proven unsatisfactory. The manager of the Little Rock Branch cites a number of instances in which member banks extended credit to customers on assurance that the Federal reserve bank would rediscount the paper. In a number of these instances the manager states the loans would not have been made direct by the Federal reserve bank without proper security.

KANSAS CITY: Following is a summary of 157 replies received up to September 10 to the bank's questionnaire addressed to a selected list of bankers and business men:

(1) 114 replies state banks are meeting demands for sound loans of a liquid character, i.e., loans reasonably certain of payment within 6 to 9 months; while 27 replies state such demands are not being met and, 16 state that they are being met only partly.

(2) Practically all replies stated that demands are now being met for loans which are sound as to security or credit base but which may have to be carried past the next crop harvest or which are largely or entirely dependent on results of crops to be planted.

(3) 123 replies state that banks are not requiring borrowers to sell productive live stock in order to liquidate loans which, although slow, are reasonably certain of eventual payment. 31 replies state that banks are forcing liquidation in this manner and 3 state that instances of such forced selling have occurred but that the practice is not general.

(4) 90 replies state that the local banks, city correspondents, live stock loan agencies, etc., will be able to supply fall demands for live stock feeding credits, 50 state that local banks will not be able to supply such demands, and 17 indicate that there will be no feeding demand in the respective communities.

(5) Replies indicate that in practically all cases loans for taxes, mortgage interest, and amortization payments are being met without question when reasonably certain of payment within a few months. Demands for such loans which are not certain of payment are not being met.

(6) Replies indicate that life insurance companies and other holders of real estate mortgages that have matured or on which interest has not been paid are doing everything possible to cooperate with the borrowers to the end that they may continue to operate their farms and eventually place their loans in a satisfactory condition.

(7) 105 replies state there is no demand for loans which the banks are either unwilling or unable to handle which might be properly made by the Federal reserve bank; 11 replies stated there is a demand for such loans; and 41 replies are indefinite or indicate there might be some demand for such loans.

"The replies received to the specific questions presented, and the comments submitted with the replies, indicate that demands for thoroughly sound and liquid loans are being met well. Some banks, however, are making no new loans, or practically none, and a substantial number of banks are making new loans only to established customers. Consequently, it is apparent that some worthy borrowers are being refused credit, and also that the attitude of the banks is undoubtedly influencing possible borrowers not to ask for credit which would be available, and thus indirectly preventing the carrying on of constructive operations.

"A substantial number of banks are in the market for good loans, but as a general thing the banks of the District have suffered such declines in deposits and are so loaded up with loans which they have had to carry over and on which they can anticipate no reduction for some time to come, that they are pursuing a very cautious policy. Several Oklahoma points report a decidedly changed outlook since the recent improvement in cotton prices, and many reports from all sections of the District comment on the necessity for better prices for farm commodities. The most urgent credit needs indicated by reports from all sections of the District are for farm loans, both in renewals and for new loans, and for the carrying of loans of farmers and ranchmen which, by reason of low prices and unprofitable operations, have changed from current loans having a reasonable degree of liquidity to loans so frozen that they are a burden, and in many cases a menace, to the banks."

DALLAS:

"The process of circularizing the members of the various trade associations is a tedious one, and its completion will require some little time. Up to this time, however, the preliminary returns have shown that those individuals, partnerships and corporations that are in a position to meet the requirements of the law are not in need of additional sources of credit, while those who have indicated such need seem, without exception so far, to be ineligible to use our direct loans, due to the legal restrictions that govern them."

APPLICATIONS OF INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS FOR LOANS NOT GRANTED
BY THE FEDERAL RESERVE BANKS - TO SEPTEMBER 10, 1932

	Number		Reasons for not granting loans applied for					Amount of loans declined#
	Week ending Sept. 10	Total to Sept. 10	Loans placed with other banks	Present credit deemed adequate	Paper not eligible	Paper not satisfactorily secured	Denial of credit not shown	
Boston	-	6	-	-	3	3	-	$14,240
New York	7	79	2	3	16	58	-	2,430,200
Philadelphia	4	33	-	-	23	10	-	537,100
Cleveland	-	4	-	-	-	4	-	11,500
Richmond	2	37	-	-	28	9	-	813,063
Atlanta	11	86	1	-	49	36	-	1,015,128
Chicago	8	72	-	-	39	33	-	1,010,750
St. Louis	2	25	1	-	5	19	-	254,550
Minneapolis	1	9	1	-	2	6	-	82,000
Kansas City	2	16	-	-	11	2	3	40,083
Dallas	*2	6	-	-	-	6	-	56,500
San Francisco	-	3	1	-	-	2	-	62,000
Total	39	376	6	3	176	188	3	6,327,114

*Week ending September 3.
#Approximate; amounts sometimes not stated.

(B-842)

Mr James See Bk

September 30, 1932.
B-843

CONFIDENTIAL

TO: Mr. Morrill SUBJECT: Direct Loans to Individuals, etc.

FROM: Mr. Van Fossen

Attached hereto is a statement showing the number of applications of individuals, partnerships and corporations for loans not granted by the Federal reserve banks to September 24, 1932, including a tabulation of the reasons for not granting the loans applied for.

It will be noted that of 438 applications refused, as shown in the statement, 233 were because of unsatisfactory security; 193 paper not eligible; 6, loans placed with other banks; 3, present credit deemed adequate; and 3, denial of credit by other banks not shown.

Direct loans to individuals, partnerships and corporations granted by the Federal reserve banks to September 28 are as follows:

Federal Reserve Bank of New York

Dorman Brothers	Astoria, N. Y.	$5,000
Friedman & Sons, Neckwear Co., Inc.	New York, N. Y.	25,000
Joseph H. Meyer Brothers	New York, N. Y.	10,000
Miller-Cummings Co., Inc.	New York, N. Y.	115,000
New Jersey Flour Mills Co.	Clifton, N. J.	50,000
Scaramelli & Co., Inc.	New York, N. Y.	15,000
S. Shuff Sons, Inc.	New York, N. Y.	10,000

Federal Reserve Bank of Philadelphia

J. F. Apple & Co., Inc.	Lancaster, Pa.	400
J. B. Henkeln (Henkeln & McCoy)	Philadelphia, Pa.	3,427

Federal Reserve Bank of Atlanta

Richmond Hosiery Company	Rossville, Ga.	50,000
Mississippi Cotton Seed Products Co.	Jackson, Miss.	48,000

Federal Reserve Bank of Minneapolis

Bricelyn Canning Co.	Bricelyn, Minn.	90,947
H. C. Ervin Co.	St. Cloud, Minn.	9,580
Kiddie Gym Co.	Minneapolis, Minn.	7,500

p113

VOLUME 232
PAGE 113

Following is a summary of correspondence received since September 17 from the various Federal reserve banks regarding their activities and those of the Banking and Industrial Committees in connection with the survey to ascertain the extent to which there may be demands for loans which are not being met by other banking institutions and which could be granted properly by the Federal reserve banks under the provisions of the amendment to Section 13 of the Federal Reserve Act:

NEW YORK: Preliminary report on replies to the Banking and Industrial Committee questionnaire on availability of credit, indicates that there is some concentration of unfilled credit needs in real estate, building materials, and affiliated lines. Of 186 replies 143 indicated no lack of credit and the 43 remaining reported unfilled demands for credit as follows: 20 for purchases of merchandise and raw materials and employment of labor; 11 to pay debts, taxes, etc.; 5 for fixed capital purposes; and 7 for miscellaneous purposes. In somewhat over half of the cases credit was desired for periods in excess of 6 months, probably indicating that the would-be borrowers desired funds to tide them over until their working capital can be restored out of anticipated profits. In nearly half of the cases the amounts needed were not over $10,000 and in only 3 cases over $50,000, supporting the conclusion, indicated by other data, that it is largely the small borrower who is finding difficulty in obtaining credit under present conditions.

PHILADELPHIA: Preliminary summary of survey concerning availability of credit to industrial concerns from banks based on 1,960 replies to the bank's questionnaire shows that:

(1) 1,364 of 1,694 concerns report no unusual difficulty has been experienced in borrowing sufficient funds for working capital required for the production and marketing of goods.

PHILADELPHIA: (Cont'd)

(2) 1,026 of 1,329 concerns stated that they are not aware of deserving applicants being unable to secure credit.

(3) 266 of 546 concerns state that in their judgment the applicants refused loans were not entitled to receive the credit desired.

(4) 527 of 797 concerns state that the general line of credit has not been reduced by a larger amount than the decline in the volume of pricos of goods would warrant.

(5) 270 of 502 concerns state that the reduction in credit has not resulted in curtailment of business activity.

(6) 1,011 of 1,172 concerns state that banking facilities have been adequate to take care of all reasonable requests for loans.

(7) 888 of 1,111 concerns state they would not buy additional raw materials in advance of needs if credit were available.

(8) 837 of 1,161 concerns state they have no out-of-date equipment which they would normally replace.

(9) 665 of 1,054 concerns report no improvements and additions that would normally be undertaken.

(10) 851 of 982 concerns state such improvements have not been delayed for lack of credit.

(11) 398 of 520 concerns state that availability of credit would not cause them to proceed with replacements, improvements or additions.

RICHMOND: Of 18 replies received from Maryland county agents to the Banking and Industrial Committee questionnaire, all, with the exception of one indefinite reply, indicate that they know of no probable applications within the next few months for direct loans from the reserve bank and also know of no specific refusals by local banks within the past 60 days to make similar loans.

DALLAS: Of 99 replies to the Banking and Industrial Committee questionnaire, 81 state they do not find it difficult to secure adequate credit accommodation; only 12 indicate that they would be interested in the direct loan

DALLAS: (Cont'd)

facilities of the Reserve bank; and 59 state that there has been a recent improvement in their own business.

The Chairman of the local Banking and Industrial Committee has advised the Central Executive (B. and I.) Committee at Washington that local banks are taking care of all reasonable demands for feeder loans and indicates that they are prepared to lend assistance, if needed, to the St. Louis, Minneapolis, and San Francisco districts. Feeder business in Dallas district is in infancy and the number of operators who have acquired the necessary experience and technical knowledge of the business to insure success is still quite limited. The Agricultural Credit Corporation will undoubtedly receive numerous loan applications from cattlemen in the Southwest who want to experiment in the feeder business, but whose experience and knowledge are in many cases so inadequate that the loans if granted will result in disastrous losses to the government.

Replies to Governor Meyer's September 16 telegram regarding business conditions. Wholesale trade in paper, hardware, drugs, groceries, shoes, dry goods and paint and oil is reported by two or more of the Federal reserve agents to be on the increase, while leather goods, women's ready-to-wear clothing, hats, textiles, furniture and lumber are so reported singly. Wholesale trade in jewelry, electrical supplies and implements, as well as groceries and hardware, is reported to show no improvement. General comments by districts follow::

BOSTON - Cotton manufacturers continue activity, as in August, greater than July but considerably below a year ago. Woolen and worsted manufacturers still running at higher rate of activity than in July. Rug and carpet manufacturing and distribution are slow.

PHILADELPHIA- Seasonal improvement in wholesale, jobbing and retail trade.

CLEVELAND - Sentiment in both wholesale and retail lines better than a month ago.

RICHMOND - Most of reporting firms mention marked improvement in mental attitude of public, which is expected to reflect itself in gradual but steady growth of business.

ATLANTA - Representative group of wholesale and retail merchandise dealers report an increased volume in business during past ten days except those dealing in hardware.

CHICAGO - Noticable improvement in retail stores running from 5 to 20 per cent over last year, particularly in consumables. Mail order, some improvement in nature of less percentage of decline.

ST. LOUIS - Trend of business activity in Eighth district in past 30 days distinctly upward.

MINNEAPOLIS - Representative general merchandise wholesaler reports August business 15 per cent over August last year, September 6 per cent over last year.

DALLAS - Thirty-three firms report improvement varying from slight to very marked, while 17 report slump in their business which they attribute to reaction that occurred in cotton market on September 8 following announcement of government crop estimate. Despite recent set back in cotton values, mental attitude of business leaders and farmers is still marked by a strong spirit of confidence.

SAN FRANCISCO - Slight evidence of improvement other than seasonal in retail or wholesale sales. Most firms interviewed report better sentiment.

(B-843)

APPLICATIONS OF INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS FOR LOANS NOT GRANTED BY THE FEDERAL RESERVE BANKS - TO SEPTEMBER 24, 1932

	Number		Reasons for not granting loans applied for					Amount of loans declined#
	Week ending Sept. 24	Total to Sept. 24	Loans placed with other banks	Present credit deemed adequate	Paper not eligible	Paper not satisfactorily secured	Denial of credit not shown	
Boston	-	7	-	-	3	4	-	$19,240
New York	7	95	2	3	17	73	-	2,864,400
Philadelphia	2	39	-	-	25	14	-	799,600
Cleveland	-	5	-	-	-	5	-	15,000
Richmond	1	40	-	-	28	12	-	820,295
Atlanta	2	100	1	-	55	44	-	1,666,328
Chicago	5	83	-	-	45	38	-	1,033,750
St. Louis	1	28	1	-	5	22	-	259,800
Minneapolis	2	11	1	-	4	6	-	162,000
Kansas City	-	17	-	-	11	3	3	41,172
Dallas	-	7	-	-	-	7	-	57,000
San Francisco	1	6	1	-	-	5	-	68,250
Total	21	438	6	3	193	233	3	7,806,835

#Approximate; amounts sometimes not stated.

(B-843)