

## The Papers of Charles Hamlin (mss24661)

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Hamlin, Charles S., Scrap Book – Volume 268, FRBoard Members

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

Date August 12, 1941To The Files

Subject: \_\_\_\_\_

From Mr. Coe

MPC.

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 268 of Mr. Hamlin's scrap book and placed in the Board's files:

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Letter to Mr. Hamlin from Chairman Eccles re effect of so-called "Easy money".

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 5, 1937

Mr. Charles S. Hamlin, Special Counsel,  
Board of Governors of the Federal Reserve System,  
Washington, D. C.

Dear Mr. Hamlin:

Thank you for your letter of February 13, 1937, in which you suggest that a careful examination be made of the effect of so-called easy money on the small merchants and shopkeepers throughout the United States.

There is inclosed a copy of a memorandum to the Board on the recent survey of rates of interest paid on deposits and charged on loans by member banks. This shows interest rates most commonly reported by member banks as charged on various kinds of loans. Separate figures are shown for country member banks excluding those in non-reserve cities of over 100,000 population. A textual discussion based upon this study and other data appears on pages 295 to 298 of the April issue of the Federal Reserve Bulletin.

As you know, the Board has not before obtained reports on rates of interest charged on loans by member banks other than those located in the larger centers. It is not possible, therefore, to determine accurately whether the average country banker has lowered his interest rates materially. It is possible, however, to compute from condition reports and statements of earnings and expenses average rates of interest on loans by relating interest and discount on loans to total loans and discounts. The table below shows these averages for all member banks from 1928 to 1936, inclusive. The table also shows corresponding average rates computed by the Federal Reserve Bank of Boston covering approximately 200 New England member banks outside of the City of Boston.

Year	Ratio of interest and discount on loans to total loans and discounts	
	All member banks	Approximately 200 New England member banks outside of Boston
1928	5.7%	5.8%
1929	6.1	6.2
1930	5.4	5.8
1931	4.9	5.7
1932	5.1	5.6
1933	4.7	5.6
1934	4.3	5.6
1935	4.2	5.5
1936	*4.1	5.3

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\*Based on figures for the first half of 1936.

The ratios given above show a distinct downward trend in the rates of interest charged by member banks as a whole. The figures for country member banks in the New England States also show a downward trend, although not as pronounced as in the case of all member banks. Corresponding ratios for country member banks in other districts have not been compiled. Beginning in 1932, however, the annual reports of the Comptroller of the Currency have shown earnings of country national banks separately. On the basis of these figures and computed in the same manner as the ratios shown above for all member banks, the average rate of interest and discount on loans of country national banks was 5.3 percent for the year ended June 30, 1932, and 5.8 percent also for the year ended June 30, 1936.

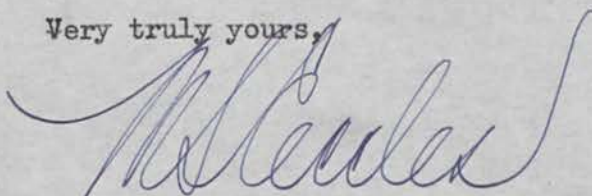
Prior to 1932 it is possible to compute similar ratios for country national banks only in certain States. The attached table shows such rates for country national banks for 28 States for each of the fiscal years ended June 30, 1928, 1932 and 1936. This table shows lower average rates of interest in 1936 than in 1928 except for Wyoming, Oklahoma and Nevada. For the 28 States as a whole the average rate of interest fell from 6.2 percent for the year ended June 30, 1928, to 5.6 percent for the year ended June 30, 1936. These ratios are, of course, averages reflecting all types of loans and discounts on which various rates of interest were probably obtained. Nevertheless, they seem to show that a definitely lower rate structure prevails at country banks now that a few years ago. It is interesting also to compare the figures for 1936 with the rates of interest most frequently reported in the recent survey by country member banks as charged on the largest volume of commercial and industrial loans. These rates are given in the last column of the table. You will note that in several instances the average rate of interest obtained for the fiscal year 1932 was lower than for 1936, materially so for Oklahoma and Nevada. This may be due to a number of factors, one of which is perhaps the transfer of some of the larger loans to banks in reserve centers for the purpose of obtaining lower rates than the country banks are willing to quote. Another possible cause is the fact that most country banks keep their books on a cash basis. Thus, certain 1932 figures may be abnormally low because loans and discounts at that time were inflated by the inclusion of some loans on which interest was not being received in whole or in part. Similarly, the 1936 figures may reflect the receipt of more than a full year's interest on a certain portion of loans and discounts.

You are undoubtedly correct in your feeling that the smaller banks have not reduced their interest rates on loans to local merchants in line with reductions in rates charged to large corporations by banks in the financial centers, where the pressure of surplus funds has naturally had its greatest effect. The recent survey as of October 1, 1936, indicates, in fact, that even in the large cities the rates charged to the largest number of borrowers (which would include the small shopkeepers) have not declined nearly to the level of rates at which the large corporations can borrow. The fact that manufacturers and other large businesses in money centers have been able to borrow at relatively low rates of interest from banks in such centers has, however, enabled them to extend credit to their customers on more liberal terms than would otherwise be

Mr. Hamlin - 3

the case. It is quite possible, therefore, that merchants in the smaller cities have benefited from easy money to a greater extent than would appear from comparing rates of interest charged by country banks over the past ten years.

Very truly yours,

A handwritten signature in blue ink, appearing to read "M. S. Eccles", written in a cursive style.

Marriner S. Eccles,  
Chairman.

Inclosures

AVERAGE RATE OF INTEREST ON LOANS AND DISCOUNTS FOR COUNTRY NATIONAL BANKS  
IN CERTAIN STATES, YEARS ENDED JUNE 30, 1928, 1932, and 1936, and  
RATES MOST FREQUENTLY REPORTED BY COUNTRY MEMBER BANKS AS  
CHARGED ON LARGEST VOLUME OF COMMERCIAL AND IN-  
DUSTRIAL LOANS AS OF OCTOBER 1, 1936.

	1928 <u>a/</u>	1932 <u>a/</u>	1936 <u>a/</u>	Most Common Rate Charged on Largest Volume of Commercial and Industrial Loans October 1, 1936.
New England States	5.5%	5.3%	5.0%	6%
New Jersey	5.6	5.3	5.1	6
Pennsylvania	5.8	5.5	5.5	6
Delaware	5.7	5.4	5.5	6
Maryland	6.1	5.5	5.6	6
Average (Eastern)	5.8	5.4	5.4	
West Virginia	6.1	5.3	5.8	6
North Carolina	6.1	5.0	5.7	6
South Carolina	6.4	5.0	5.2	7, 6 <u>b/</u>
Florida	6.7	6.2	5.4	8, 6 <u>b/</u>
Mississippi	7.2	6.0	5.8	6, 8 <u>b/</u>
Average (Southern)	6.4	5.4	5.7	
Indiana	6.5	6.0	5.8	6
Illinois	6.4	5.7	5.6	6
Minnesota	7.0	6.5	5.6	8, 7 <u>b/</u>
Missouri	7.1	6.0	6.2	6
Average (Middle Western)	6.6	6.0	5.7	
North Dakota	7.8	6.9	5.1	7
South Dakota	7.2	6.7	5.8	8
Nebraska	7.7	7.0	7.0	8
Wyoming	7.2	7.2	7.8	8
New Mexico	8.1	8.0	7.8	8
Oklahoma	8.6	8.1	9.9	10, 8 <u>b/</u>
Average (Western)	8.0	7.4	7.7	
Idaho	7.4	6.6	6.8	8
Nevada	7.0	5.1	7.4	8
Arizona	7.4	7.3	6.3	8
Average (Pacific)	7.3	6.3	6.6	
Total	6.2	5.7	5.6	

a/ The percentages shown are not computed from actual rates of interest charged on loans, but are derived by dividing interest and discount on loans reported for the respective years by the average of loans and discounts reported for all call dates during each such year and the last call date in the previous year. The States listed are those for which comparable figures for interest and discount on loans and for loans and discounts for all 3 years were contained in published reports of the Comptroller of the Currency.

b/ This rate reported at least three-fourths as many times as the rate most frequently reported.

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