

FEDERAL RESERVE BANK

X-3226

OF

KANSAS CITY

October 4th, 1921.

Farmers State Bank,

Genoa, Nebraska.

Gentlemen:

In the recent correspondence between Governor McKelvie of Nebraska and Governor Harding of the Federal Reserve Board, reference is made to a telegram from you to Governor McKelvie, reading as follows:

"The Farmers State Bank joined the Federal Reserve Bank two years ago and for the past six months has rediscounted 10% interest-bearing notes. Our records justify me in saying that we have made no profits owing to their changes of rules and rediscount rates."

Without reference to profits which your bank may or may not have received by reason of discounts placed with the Omaha Branch, we are desirous to have you write us to what "changes of rules and rediscount rates" you referred, which prevented you from profiting by discounting with us and lending to your customers at the rate you named - 10%?

Please also advise us what difficulty, if any, your bank has experienced in rediscounting paper with the Omaha Branch, and what rules caused you any inconvenience with which to comply.

We are asking this in good faith, with the purpose of bettering our service to member banks and your compliance with our request will be an evidence of your willingness to co-operate with us in that effort.

Yours truly,

(s) J. Z. Miller, Jr.,

Governor.

C O P Y

FARMERS STATE BANK

Genoa, Nebr.

October 7, 1921.
X-3226a

Mr. J. Z. Miller, Jr.,
Federal Reserve Bank,
Kansas City, Mo.

Dear Governor:

Replying to your favor of the 14th inst., we shall endeavor to show in detail why we have not been profiting and what rules and rediscount rates have inconvenienced us, with the hope that same may be for our mutual benefit.

Shortly after we became members up to October 1st, 1919 this bank never had any rediscount and in reply to our question as to how much this bank could borrow and rediscount, we on Oct. 2nd, 1919 received a reply stating: "You may be assured of our entire willingness to assist you in meeting the legitimate needs of your regular customers to enable them to carry on their current operations." This together with seeing that other banks about our size carried up to \$100,000.00 worth of rediscount induced us to continue making loans to the farmers even though with a low cash reserve. When we reached \$33,000.00 rediscount the basic line rule was placed into effect so we were notified that we had overstepped our credit line. We could not then, nor can we now, increase our line but our paper sent in, was and is now held to meet maturing notes.

In 1919 the corn crop of this vicinity was almost a drought failure, farmers had to buy high priced corn to carry on their work and they could not liquidate and our deposits went down day by day and owing to the rule as mentioned we were compelled to go to our correspondent bank for help and obtain considerable money and pay as high as 9% interest.

In 1920 about one half of our farmer customers were hauled out and as a consequence for nearly two years we have had to pay a high rate of interest on account of the basic line rule.

At the time this bank became a member we never had any borrowed money. Our directors decided to sell our \$17,000.00 worth of U. S. Bonds. The 4 $\frac{1}{4}$ % interest together with advice from one of your Omaha officials to not sell them changed our mind so we borrowed, giving the bonds as collateral. The change of interest rates as well as the drop of market price on bonds has caused us considerable loss. When the rule that only 85% of face value could be borrowed on the bonds it compelled us to borrow \$2500.00 from our correspondent at 9% interest on which we are today paying 8%.

From the time this bank was chartered until about six months ago it has only charged its customers 7% and 8% interest, even though we paid an interest rate of from 8% to 9 $\frac{1}{2}$ %. We raised our interest rates about the same time other surrounding banks raised.

Perhaps you will say that we have misused our credit, which is true, we should have known better than to have went in so deep. If we could have foreseen what was coming, namely; part crop failures and a money depression we would have done different. However, the fact is that the farmers needed the loans, and if we had not of supplied our customers some other bank would. Since then, ones banks customers can not go to another bank and borrow. Had we of enforced liquidation, or if we should enforce it now, many farmers would be compelled to cease operation.

Our reason for sending the telegram to Governor McKelvey was simply to offset the charge that bankers were profiteering by rediscounting 10% interest bearing notes with the Federal Reserve Bank. The charge as printed in the newspapers aroused the public, and a few of our customers accused us as profiteers on account of charging them 10%.

We have had very little difficulty in getting our rediscount approved, and what difficulty we have had has been our own fault. Our dealings with the Omaha Branch officials has been very satisfactory in so far as the common run of business goes. Under the rules, as layed before them they have been lenient to us and we can say nothing but praise for the Omaha Branch Officials.

We have made no complaint nor given any details to anyone except to the Omaha Branch Officials and we sincerely hope that our telegram or this letter has not and will not place us in bad. We are proud of being members of the Federal Reserve System and while we feel as though it could be improved for the benefit of the agricultural districts we feel equally certain that such improvements will be made and eventually work out.

We have not been knockers, nor are we now, we are boosters. This lengthy letter is not written for being a complaint. It is written with the hope that some point may be brought forth to give an inkling for the better of our good Federal Reserve Bank,

We thank you for your letter and for the spirit in which it was written and if there is anything we can say or do we shall be pleased to co-operate with you.

Yours very truly,

(s) K. C. Knudson,

Pres.