

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

April 2, 1937.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



SUBJECT: Monthly Report of Bank and
Public Relations Activities.

Dear Sir:

There is inclosed for your information a summary of the bank relations reports submitted by the Federal reserve banks for the month of February in response to the Board's letter of August 25, 1936 (X-9680).

As the summary discloses, the reports submitted by the various reserve banks have been much more comprehensive and informative in some cases than in others. Although it is not desired that the reports follow a set pattern, it will be appreciated if the banks will supply as far as practicable or available the kinds of information referred to in the Board's letter of August 25, 1936.

As stated in the Board's letter of January 13, 1937 (X-9793), it will be helpful if the reports can be submitted by the 10th of each month in order that they may be brought to the attention of the members of the Board as soon as practicable after the period to which they relate.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosure.

X-9855-a

March 23, 1937

TO The Board
FROM Mr. Hammond, Division of Bank Operations

SUBJECT: Summary of Bank Relations reports.

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of February and excerpts therefrom will be found on the following pages. A table showing for all twelve banks the number of visits made, meetings attended, and addresses delivered has also been prepared and follows the quotations.

New York's report gives considerable attention to activity in the field of mortgage loans, particularly in Brooklyn and in outside areas near New York City. This discussion is quoted only in part. Philadelphia inclosed with its report a printed booklet recounting the proceedings at a meeting of the committee on Federal Reserve relations at the Federal Reserve Bank of Philadelphia February 5. At this meeting officers of the Reserve bank reported on recent activities of the bank and of the System and discussed questions raised by the member bankers about System policies and measures. The reports submitted by Cleveland and St. Louis give considerable attention to the effect of the flood upon banking conditions.

The attitude toward the Federal Reserve System

Reserve requirements and par collection continue to be the subjects most frequently mentioned with respect to the attitude of member banks toward the Federal Reserve System. A good many of the visits reported were made before the original definition of interest was eliminated from Regulation Q. In the case of reserve requirements some banks are reported as being directly inconvenienced by the action. A greater number, however, appear to object to the increase on general grounds and, as reported by St. Louis especially feel that in their part of the country there was no such credit expansion as would warrant the tying up of additional reserves. The reports also show however that a considerable number of bankers, especially in the east and on the Pacific coast, are not dissatisfied by the Board's action.

Banking conditions

Bankers continue to comment upon the difficulty of keeping their funds employed. Even in the middle west areas hurt by flood, and in California areas hurt by the freezing weather, bankers seem to anticipate little or no difficulty in meeting credit demands. In the east, particularly in the neighborhood of New York City, considerable activity in the mortgage loan field is already in evidence or appears to be developing.

General economic conditions

Reports of economic activity continue to be favorable. Information covering the Second and Third Federal Reserve districts is particularly full and indicates on the whole very substantial and profitable activity both in agriculture and in manufacturing.

Excerpts from the reports follow:

Boston

(The Boston report contains only reference to meetings attended.)

New York

As compared with figures of a year ago, deposits and bond totals (of banks in Dutchess County) are generally higher, while loan and discount totals in most cases show a decrease. Demand for accommodation still continues light, but a rate of 6 per cent on loans is generally maintained, and only a few of the banks have made a special effort to stimulate loans through the media of personal loan departments and/or loans under provisions of the National Housing Act.

A number of officers of savings banks located in different sections of Brooklyn were interviewed. Three banks have reduced the rate charged on all mortgage loans to 5 per cent whereas all the other savings banks are charging $5\frac{1}{2}$ per cent generally, except in those cases where mortgagors are able to reduce their loans to an amount within at least 60 per cent of present day values and also make regular stipulated amortization payments, under which circumstances the rate is lowered to 5 per cent. All mortgages placed within the last few years comply with the latter requirements as to appraised value of properties and amortization, and accordingly receive the benefit of the 5 per cent rate.

Presidents of several savings banks in residential sections (of Brooklyn) report that there is a good demand for single houses and apartments for rent, one banker saying that the present demand is the best he has witnessed in over ten years. The majority of bankers say, however, that very few sales of properties acquired through foreclosure have been made. Practically all banks have gone to considerable expense in repairing and improving their properties, have set up elaborate real estate departments, and are prepared to continue in the real estate business for several years to come, the policy being to await the return of a good market for used properties rather than dispose of any on hand at a sacrifice.

It is said that many insurance companies have been competing for mortgage loans on new apartment houses and that they have not only been cutting the rate charged in some instances below 5 per cent, but are

New York continued

loaning as high as \$1,000 to \$1,100 a room compared with cost to build of about \$1,300 a room; also they are generally requesting an annual amortization of only 2 per cent.

In general, deposits of Essex County (New Jersey) banks have shown a substantial increase during the past year, the increase in demand deposits having been larger than in savings deposits in most banks. While most of the savings banks pay 2 per cent on deposits regardless of the amount, a majority of the commercial banks have established a sliding scale of interest rates, paying 2 per cent on balances up to \$5,000 (\$1,000 in some banks) and then 1 per cent on the excess above that amount. The Montclair banks have established a rate of $1\frac{1}{2}$ per cent on savings accounts effective March 1. Several of the smaller banks pay 2 per cent regardless of the size of the balance, while several of the larger banks either refuse large savings deposits or pay no interest on amounts in excess of \$10,000.

The real estate situation in Newark has shown some improvement in that values have shown a tendency to stiffen, and rents have increased in modernized homes and apartments and to a lesser degree in office buildings. Vacancies in factory property have practically disappeared, and have decreased with respect to business and residential properties. However, in the poorer sections of the city there still are many vacancies in both types of property and there is a field for slum clearance work over a sizeable area. Building permits issued in Newark during 1936 showed a slight increase over 1935 but the total is still far below the pre-depression level.

Most of the new building in Essex County is taking place outside of Newark in the residential communities such as Maplewood, Millburn, Montclair, Bloomfield, Livingston and the Oranges. Here real estate values are just beginning to improve, rents have been increased from five to ten per cent, and vacancies in homes and apartments are few while vacancies in business property are decreasing.

At the twenty-sixth annual conference of the Trust Division of the American Bankers Association on Tuesday, February 10, there was an open forum on trust business problems conducted by Mr. Gilbert T. Stevenson. At this meeting the investment of trust funds and trust statistics were among the subjects discussed. Mention was made of the part of the recent report of the Comptroller of the Currency dealing with trust department assets of national banks. Referring to trust department statistics, Mr. Stevenson asked whether those in attendance favored an eventual assemblage and publication of statistics regarding the volume and type of trust assets and types of trust accounts for all member banks by a governmental authority, preferably the Board of Governors of the Federal Reserve System. A vote by show of hands indicated that a majority favored the proposition.

Philadelphia

The areas covered by our report present a comprehensive picture of the principal activities within the Third District: manufacturing, farming, mining and lumbering. It was found that in all lines but mining, conditions were definitely improved. Labor conditions are unsettled in the larger centers due to strikes called or threatened in the hosiery, rayon, and bituminous coal mining industries.

Many of the bankers have adopted the 2 per cent interest rate and others are contemplating similar action. In only one county has a loaning rate of less than 6 per cent been adopted as a matter of policy.

The Treasurer of a non-member institution with deposits of approximately \$4,000,000 who formerly was interested in membership, stated that this institution will not join the System until it becomes compulsory. There is, he says, too much politics in the System now, too many regulations and too much supervision.

The President of a non-member institution, the total deposits of which are approximately \$900,000, stated that he is not interested in membership because it would mean more reports for him to make and he has too many now.

The President of a National bank in a town of about 2,000 served by two institutions stated that he feels the Comptroller's Office is driving loans from the bank by insisting upon financial statements for lines as small as \$500. Efforts to obtain these statements, he said, would result in many loans being paid off with funds borrowed at institutions not requiring statements, with a consequent loss of income to his bank.

The President of a member State institution commented on a news article relative to the F. D. I. C. taking over some of the functions of the Treasury Department and the reserve banks. He expressed the hope that this will never happen.

The Cashier of a National bank with deposits of about \$900,000 referred to the increase in reserve requirements and said that he felt this was done at the instance of the bankers in the large cities, in an endeavor to bring higher money rates. His attention was invited to the fact that those banks would be affected most by higher reserve requirements and that any increase in money rates would affect all banks.

Industrial, trade, and agricultural conditions in Bedford, Blair, Clearfield, Huntingdon, Juniata, Perry, and Mifflin counties as a whole have improved greatly during the past three years of recovery and the present activity continues at relatively high levels. Production, employment, and income from all sources have been increasing and last year reached the largest volume since 1930.

Philadelphia continued

All of the counties covered here have experienced substantial recovery from the low levels of the depression years. This is true not only of industry, trade, and agriculture but also of banking. Such preliminary computations as are available for some of these counties indicate that net earnings from current operations of member banks increased last year, and in most cases recoveries and profits from securities were almost sufficient to offset losses and depreciation.

Cleveland

(Cleveland submitted no summary, but only copies of reports of individual bank visits.)

Richmond

At our bank relations conference on February 4-5 a program for this year was decided upon. We will continue as heretofore to make one visit at least to each member bank in our district during the current year, and, in addition, we will undertake to see every nonmember bank in the district regardless of whether such nonmember bank is eligible for membership with respect to capital or is par or nonpar. Our schedule also includes a greater number of visits by officers of our bank and its two branches.

(Richmond reports that in response to its circular letter on the recent increase in the reserve requirements, it received a letter from a certain member bank officer who "commented rather bitterly" upon the increase. The letter implied that the bank, which is a national bank, contemplated withdrawal from the System. Rather than enter into a controversy with the officer, it was decided to visit the bank and meet with the directors and discuss the questions and implications raised by the letter. A conference was arranged with seven directors of the bank in addition to the active officer who had written the letter, the cashier of the bank, and the bank's attorney. Richmond's account of the conference follows:)

Our meeting, which lasted approximately three hours, was conducted throughout in a perfectly friendly and cooperative spirit, but it was immediately apparent that the directors of the bank, including the president, had only a meager knowledge of the banking business generally and of the subject of our meeting particularly. They rely upon the active officer of the institution. The officer is involved in his own personal affairs. He is resentful of supervision and criticism. He would like to return to the "good old days" in banking, described by him as that period of his banking career prior to the organization of the Federal Reserve System. We talked very fully about all of these questions and it is believed that the directors of the bank have a better knowledge of the situation than heretofore and it is further believed that the bank has no intention of making any change in its affairs at the present time but the officer of the bank felt the necessity of expressing himself and relieved his mind to some extent perhaps of an accumulation of petty grievances.

Atlanta

The bank officials of the banks visited (in Florida) appeared optimistic and generally reported improved local conditions; also increases in deposits and loans over balances shown on their books a year ago. Practically all of the non-member banks appeared friendly toward the Federal Reserve System. The member banks registered no complaints regarding the facilities of the Federal Reserve Bank they are using.

Chicago

(The Chicago report contains only statistical information as to visits and addresses made, meetings attended, luncheon guests entertained, etc.)

St. Louis

An officer of a large member State bank in Kentucky, who with others had gone to Washington to protest with the Board of Governors against proposed sub-section (f), stated that he had visited the FDIC and is of the opinion that Mr. Crowley favors banks charging exchange on checks drawn on them received through the mail, and that it would not surprise him if the examiners for the FDIC would encourage banks to get off the par list.

The active officers of a national bank stated that they were not favorably impressed with the impending increase in reserve requirements, owing to expected demand for credit from persons in the flood area. Suggestion regarding use of rediscount facility brought forth the comment that by so doing the bank would be paying a discount fee for the use of its own money and that the bank would lend its idle funds only.

A national bank in Kentucky is at a loss to see the necessity for the increase in reserve requirements which become effective shortly, and feels that the increase is somewhat of an imposition on the small banks which are endeavoring to care for credit needs in their communities, especially as such advances are being confined to funds necessary for farmers to carry on their work.

One bank in Kentucky stated that as soon as further adjustments are completed, officers will give serious thought to the matter of membership.

Another (bank in Kentucky) stated that its Louisville correspondent supplies all needed services.

No consideration whatever is being given to membership by a State bank visited; officers stated that if any change is made, it will be conversion into a national bank.

St. Louis continued

Loss of revenue from exchange would be an insurmountable obstacle to any serious consideration of membership by one nonmember, which derives an income of \$150 per month from exchange charges.

Many of the banks visited in the flood area reported that most of the losses were suffered by farmers in the bottoms, who lost buildings, household goods, fences, feed, and some livestock. However, only a few loans had been made for rehabilitation purposes. The banks stated that they had plenty of money and would be glad to make rehabilitation loans on sound basis. Most of them do not anticipate any losses as a result of the flood, and said that as the situation straightens out it is apparent that the first estimates of losses were exaggerated.

As to their own loans, most of the banks expected little, if any, loss. Deposits of at least one bank have increased since the flood on account of the spending by Government agencies.

So far no inquiries in regard to industrial loans have been received (as a result of the flood), although some applications may develop later. In view of the idle funds carried by local banks, the feeling is that any going concern can secure adequate credit accommodations. The suggestion was made, however, that we go easy for the time being on outstanding 13b loans.

Less use is being made of custody facilities by a small bank in Tennessee, because commercial correspondent gives immediate credit for maturing coupons on the due date rather than on receipt of advice of actual payment, and the plan is liked because it simplifies bookkeeping entries.

Needs of a Mississippi country bank are fully cared for by correspondent banks, even in connection with rediscounting. It is very likely that this bank will not again attempt to borrow from the FRB in view of the attitude toward compliance with FRB requirements in connection with credit information to support notes of customers.

Another member believes that commercial correspondents are fully able to render all assistance which the bank may need, and at present feels that it is quite able to function satisfactorily without aid from any source.

An officer of a Kentucky member, whose attitude toward the System is friendly, stated that arrangements for meeting needs of the bank were entered into with correspondents many years ago, and inasmuch as its correspondents have always endeavored to be of utmost possible service, he could see no reason for disturbing existing relations unless he was convinced that better results might be secured from other sources.

Minneapolis

In some banks (Southeastern Minnesota) there was a sharp increase in deposits in the territory visited, while in others there had been no material change. Interest paid on deposits varied from $1\frac{1}{2}\%$ to $2\frac{1}{2}\%$ without any noticeable effect; even in towns where there was more than one bank the rates varied. Some of the banks do not carry deposit insurance, feeling secure without it. In fact their deposits have shown a marked increase regardless of the lack of insurance. Most of the banks, however, thought deposit insurance was necessary, although it had not been much discussed by their customers. Earnings of most banks in this area were approximately 25%. Several of the banks paid bonuses to their employees at Christmas-time. Practically no mention was made by National bankers of the increased requirement in reserves.

This territory (South central Minnesota) represents one of the most productive agricultural sections of Minnesota. Although the farmers throughout this area have not escaped some lean years, nevertheless they have never sustained complete crop failures. Good crops and the advance in agricultural prices have increased their incomes, and as a result the banks' deposits have increased. The banks as a whole find that their real problem is the investment of their excess funds.

It would appear there is a slight increase in local loans involving real estate mortgages and the financing of agricultural machinery, automobiles, etc. Last fall a number of banks granted many loans for the purchase of feeder live stock. As a result of trading in government and general market securities, many bankers have made substantial profits since 1933. The trend of gossip connotes that some are still speculating in low-grade securities, and that many of these banks which sustained high bond investment losses five or six years ago, according to local rumors, are now falling back into the same old practices of purchasing speculative securities, and that rather than confining their major lending activities locally, - which to a great extent they could do - they are looking to the bond market for investments. Fear was expressed by many of the bankers visited as to the possibility of a downward trend in securities, and many conjectures were advanced as to whether such banks were making wise and prudent investments and whether they would not later encounter serious losses if these practices were continued.

As a result of the advanced live stock and grain prices, the farmer is now earning a greater income than he has for a number of years, and as is characteristic of the Northwest farmer, is overexpanding. In anticipation that this income will continue, he is purchasing corn pickers, tractors, other expensive agricultural machinery. It seems he is never content to maintain a reserve fund, but must use his idle funds in the acquisition of adjoining farm lands, farm machinery, and additional buildings.

Kansas City

(The Kansas City report reflects relatively little bank relations activity for the month of February and no excerpts have been taken from it.)

Dallas

The administration and policies of the Federal Reserve System were not criticized by any of the bankers visited, although several did express the opinion that the announced increase in the reserve requirement might interfere with their ability to meet the demand for loans at the peak of the lending season, these few bankers stating that they would not borrow to meet requirements beyond what their own resources could support.

San Francisco

(With respect to the effect upon the citrus industry of the severe frost, which occurred the fore part of January,) the general opinion was that, while in individual cases losses may prove ruinous, the total income to be received by the growers as a whole this year will compare favorably with that anticipated before the freeze, due to the higher prices expected for that portion of the crop which was saved.

The coming increase in reserve requirements was apparently well received by the bankers interviewed, and almost without exception it was indicated that the change will be accomplished without the necessity of borrowing.

Attachment

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

FEBRUARY, 1937

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	None	None	None	3	*	None	None
New York	123	52	175	5	4,435	None	None
Philadelphia	*	*	75	7	2,350	5	1,250
Cleveland	149	62	211	2	2,600	1	125
Richmond	15	33	48	4	1,990	None	None
Atlanta	19	21	40	none	None	None	None
Chicago	13	19	32	1	225	1	101
St. Louis	47	38	85	1	*	None	None
Minneapolis	8	12	20	3	2,360	5	352
Kansas City	None	None	None	1	1,221	None	None
Dallas	52	2	54	8	4,490	None	None
San Francisco	79	15	94	13	818	2	72

*Number not indicated.