

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9876

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



April 23, 1937.

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 March in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

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

Chester Morrill,
Secretary.

Inclosure.

TO ALL PRESIDENTS

X-9876-a

April 19, 1937

The Board

Summary of Bank Relations

Mr. Hammond, Division of Bank Operations

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 March 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.

The attitude toward the Federal Reserve System

As usual, par clearance is frequently mentioned in the reports as seriously affecting the attitude of bankers toward membership in the System. A good many non-members are reported to feel that membership in the Federal Deposit Insurance Corporation makes membership in the Federal Reserve System unnecessary. There is also a feeling on the part of non-members, as reported before, that membership under national charter is preferable to membership under state charter. A considerable number of bankers, while not hostile to the System, say that they will not seek membership voluntarily but will wait until it is made obligatory.

Banking conditions

The reports indicate that the two subjects of greatest present interest to bankers are the change in reserve requirements and the decline in the bond market. A good many banks had depreciation in their bond accounts, and in the New York district the question was being raised as to whether supervisory authorities would require the charge-off of depreciation below par on government securities. Bankers were also seeking assurance that they could borrow on government bonds regardless of future depreciation. Elsewhere a good many banks are reported as having expressed the opinion that the government should do something about the decline in bonds. Although liquidation of government securities had been wide-spread, it is indicated that extremely few bankers had sold because they needed the funds to meet the new reserve requirements.

General economic conditions

Bankers continued to report favorable economic conditions on the whole, but in several districts there was apprehension as to strikes and the disturbance that they would entail for business generally.

Excerpts from the reports follow:

Boston

Matters of interest brought up by visiting bankers have been questions relative to particular operations, interpretation of laws and regulations, earnings possibilities and the future of securities portfolios. There has been a slight increase in demand for commercial bank loans, but the institutions will have no difficulty in meeting the requirements of their customers or the prospective increase in reserve requirements without borrowing. There has been a larger number of banks borrowing from the Federal Reserve Bank temporarily owing to tax situations at this season of the year in New Hampshire and Connecticut. Industrial loan inquiries and applications have fallen off. One member Trust Company has taken steps to withdraw from the System owing to its inability, under State law, to make a valid pledge of securities with its Trust Department to secure funds deposited in its Banking Department - necessitating a transfer of such funds to other banks; and the fear of loss of valuable accounts if required to publish reports of so-called affiliates - two manufacturing companies.

New YorkNassau County, New York

Nineteen of the fifty-seven banks in the county have reduced the rate of interest paid on savings deposits below 2 per cent; four pay 2 per cent up to \$1,000 and 1 percent over \$1,000; ten pay a flat rate of $1\frac{1}{2}$ percent and five pay 1 percent.

A number of banks have tried to build goodwill or to increase their income by offering pay-as-you-go service in their communities, such as the checkmaster plan of selling checks, ten for a dollar with no minimum balance required. Bankers say that these systems have been recently installed and they, therefore, hesitate to express an opinion as to whether the venture into this field has been, or will be, profitable.

As a result of the continued decline in market value of securities during the past month, a number of the banks now have a slight depreciation in their bond accounts. About 40 percent of the security holdings of the Nassau County institutions are in United States government bonds, the total having increased slightly since the first of the year.

About twenty-five banks have established personal loan departments but only two or three have as much as \$100,000 in loans of this type on their books today and one bank recently discontinued its personal loan department because it was felt that there was not sufficient demand for loans of this type to continue a special department.

Only one of the sixteen nonmember commercial banks has indicated that it expects to file application for membership shortly. Four other banks expect to take some action on this subject as soon as they are in better condition. The other eleven banks show little interest in membership and appear to be indifferent about joining the System at the present time.

New York continuedBergen County, New Jersey

Only a few of the banks have had any appreciable increase in demand for business or collateral loans and the development of personal loan departments has proceeded rather slowly. In many of the smaller banking institutions, the interest rate on all types of loans has been maintained at 6 percent with lower rates granted only in a few exceptional cases. In some of the larger banks real estate mortgage loans can be obtained at 5 or $5\frac{1}{2}$ percent providing the borrower can make regular amortization payments. As regards collateral, municipal and other loans, the lowest interest rate mentioned by any bank officer was $3\frac{1}{2}$ percent. Higher interest rates on loans and mortgages in this county than those obtained by banks in Hudson and Essex counties are partially explained by the fact that there are no savings banks in Bergen County and also because the commercial banks have attempted to maintain the 6 percent rate.

A number of the bankers are seeking some definite assurance that the Federal Reserve Bank will loan the par amount against government bonds regardless of the amount of future depreciation and they also are seeking assurance from the supervisory authorities that they will not be required to charge off any depreciation below par on United States government securities. Several bank officers expressed the hope that the increase in reserve requirements to become effective May 1 may be waived by the Board of Governors of the Federal Reserve System, not because they expect any difficulty in meeting the increased reserve requirements, but in the hope that such waiver would have a stabilizing effect upon the government bond market.

Hunterdon County, New Jersey

Demand for accommodation is generally characterized as being light, and loan and discount lists, as a result, have shown no growth in recent months except in the case of four banks which report increases varying up to 18 percent. The rate of interest is 6 percent on almost all loans, exception being made in the case of well secured loans (5 percent) and in the case of public borrowing when the rate varies from 4 percent to 5 percent. One bank, however, maintains a uniform rate of 5 percent on all loans.

Warren County, New Jersey

Officers of only three of the banks reported a material increase in the size of their bond portfolios during the past twelve months. United States government holdings average 45 percent of the total, and in most cases it was stated that the list still showed a slight appreciation. Great concern was, however, expressed in all quarters, over the recent market recessions, particularly in the case of government obligations.

Executive officers of both the nonmember trust companies were exceedingly cordial but stated that no serious thought was being given to membership for the present. One has a number of real estate problems which he first wishes to clear up; the other remarked that his board of directors wishes to "await further developments in local conditions and in national affairs".

Philadelphia

The area covered by these visits (in Delaware and southern New Jersey) is largely rural and sparsely settled. Agricultural activities provide the chief sources of income, as industrial enterprises are concentrated in a few of the larger cities. Credit demand was found to be somewhat stronger but below the seasonal expectations, particularly in strictly agricultural communities because of the tendency of many of the farmers to use the funds which they had on deposit in the bank before asking for credit. This tendency was said to be due to the lower interest paid on savings deposits which makes it less attractive to keep money on deposit continuously even though it might be necessary to borrow for short periods. Deposits except for the effect produced by this tendency continued to show an upward trend. Due to the recent market decline, a few institutions reported that their securities accounts reflected a depreciation from the book-value, for the first time in a long while. Due to the depressed prices of bonds, some institutions reported that in order to meet their seasonal demand it was necessary to borrow or to sell securities at a loss. Considerable comment was made relative to the recent market decline and the assertion was freely made that the Government should correct and prevent this condition.

The investment portfolios of many of the institutions visited showed a heavy concentration in obligations of local and nearby municipalities. Information given indicated that these municipalities are improving their financial position. While industrial conditions show a definite upward trend, the bankers interviewed expressed much concern about the unsettled labor conditions; strikes and threats of strikes were already affecting business and industrial conditions in several communities.

The real estate market, particularly in the larger towns and cities, is improving to the point where some banks are beginning to realize profits from their other real estate owned.

The labor situation in this territory shows considerable unrest, particularly around Trenton and Camden, and Wilmington where a strike is about to take place involving building trade unions, taxi drivers, common municipal laborers, and stationary engineers. While at the moment this development does not seem to be widespread it contains seeds of trouble, especially in those parts where industries have been operating on the open-shop basis. The principal cause of the labor unsettlement appears to lie in the general attempt to unionize these open shops, although the question of higher wages plays an important part.

Cleveland

(Cleveland submitted only statistical information as to the number of banks visited, addresses made, and meetings attended.)

Richmond

In our district a very large percentage of nonpar nonmember banks are in North Carolina and South Carolina, and while the total number of nonpar nonmember banks in the district is approximately 28% of the total number of banking institutions in the district, their total deposits are only about 7% of the total deposits of all banking institutions in the district. It is therefore apparent that the nonpar nonmember banks include a large number of small institutions, with a limited scope of operations, which find it extremely difficult to make operating expenses from earnings and likely would not make operating expenses without the inclusion of exchange charges. It is interesting to observe that while discussions concerning membership and the System generally, with nonmember bank officers, are extremely frank, such discussions are conducted upon a very friendly basis and without any show of feeling. Next to the exchange question, we most frequently hear the statement that Federal Deposit insurance for insured banks makes membership unnecessary.

The criticisms of our bank and of the Board of Governors which came to our attention in the month of March were centered for the most part around the increase in reserve requirements of member banks and the recent decline in the bond market. Many bankers, member and nonmember, see, or think they see, a connection between the two incidents. In only a few cases have member banks said to us that they would be compelled to sell some securities in order to meet the increase effective on May 1st. Needless to say, the decline in the bond market, particularly in Government securities, has been the subject of considerable comment by all banking institutions in the district. Nearly every bank officer has his own remedy for the situation. One of our representatives expressed the opinion that, while with few exceptions no member bank would be compelled to sell its securities in order to meet reserve requirements as increased, the situation generally afforded banks an opportunity, or an excuse, or a reason, call it what you will, to lighten their security portfolios.

Atlanta

In Louisiana twenty-one banks were visited and all of the bankers interviewed stated that business conditions were greatly improved; that their banks are receiving satisfactory demands for loans; and that deposits are more than at the same period in 1936. They look forward to greater improvement during the current year.

Twenty banks were visited in Georgia and Tennessee and with one or two exceptions, the bankers interviewed stated that collections for 1936 were good, the banks are having a good demand for loans, and deposits exceed those of twelve months ago. A few of the bankers located in rural sections stated that the demand for loans by farmers is more than anticipated and in some instances the borrowers are asked to reduce the amounts shown in their applications, for the reason that it is believed the present prices for farm products

Atlanta continued

are an incentive for the farmers to increase their acreage beyond the point of safety for the particular borrowers.

It seems to be the consensus of opinion in the sections visited that the activities of Governmental loan agencies have not interfered with bank operations. It was stated that in most cases the loan agencies make loans to persons who would not be able to obtain funds from banks and that such loans benefit the banks by releasing additional funds in the country to be used as working capital.

Only one of the member banks visited advised that it would be compelled to sell a part of its holdings of Government securities in order to obtain funds to increase its reserve to the required amount beginning May 1st.

Chicago

(Chicago submitted only statistical information as to the number of banks visited, addresses made, and luncheon guests.)

St. Louis

The only adverse comment made by the officer of a national bank in Indiana was in connection with increased reserve requirements, of which he disapproves. He expressed the wish that when demand for loans becomes normal, that the Board of Governors will take some action toward lowering the reserve requirements to approximately former ratios.

The cashier of another Indiana bank appears to be irritated over the increase in reserve requirements, which he maintains was uncalled for and unnecessary, at least so far as the average country bank is concerned.

Another banker did not appear to be quite as well satisfied with membership as he was a year ago, but would make no definite statement as to the reason, except in reference to increased reserves to which he is decidedly opposed.

The opinion was expressed by the officer of a Kentucky member that with the present small volume of loans he could not be convinced that a check on over-expansion of credit was any good or valid reason for the increases so far as Kentucky country banks are concerned.

An officer of a national bank in Kentucky stated that he had been criticised by the examiners in connection with maintenance of credit statements, but stated that while he will do his best to improve his file, he does not propose to drive business away from the bank on that account. Similar views were expressed by several others who felt that nonmember banks would quickly

St. Louis continued

take advantage of such a situation and that with volume of loans at such a low point members cannot afford to lose good loans. One banker felt that it would be inimical to the interests of the bank to try to enforce any rule about credit information or statements, and he believes that in any emergency he can realize all funds necessary on the Government bonds held in the bank's portfolio.

A Kentucky banker in discussing the Government bond market, felt confident that there would be no decline which would justify banks of his class in disposing of their present holdings. Another said that he is decidedly pessimistic as to the future of the security market, especially Government bonds, and is strongly inclined to dispose of most of the holdings of his bank while the appreciation exists.

Minneapolis

Our officers have visited 175 banks, and apparently no one of these banks has offered any objection to the increase in reserve requirements. While most of them seem to be indifferent to the increase, those who express themselves feel that the increase was desirable. There is every reason to believe that these 175 banks represent a cross-section of feeling in this territory.

1936 has been a prosperous year for the banks in this section of the State (Central Minnesota). A great percentage of them have enjoyed the greatest net profit in their history. In many instances, banks with a small capital have earned over 30%, in spite of the fact that their deposits are less than \$200,000.00.

Banks have banded into county groups and installed uniform float, service, and exchange charges. I was informed that in some instances, however, exceptions were made by banks in granting special privileges to certain customers.

Interest rates vary from $1\frac{1}{2}\%$ to $2\frac{1}{2}\%$. As a rule, however, rates in the same communities are fairly uniform.

The banks in the territory visited are exchange-minded. But 4 of the 30 non-member state banks visited are on our par list, and I am positive that 3 of those 4 would not be on our par list if it were not for the fact that there is a national bank in the same town. It was apparent from conversation that exchange is a necessary factor if banks in the small communities are to continue in business.

Two non-member banks referred to the fact that they were accumulating cashier's checks issued by the Federal Reserve Bank of Minneapolis because they could not find suitable investments and they preferred to have their funds in this form. One of these banks had over \$23,000 of such checks, one of the checks being issued over a year ago.

Minneapolis continued

(Southeastern Minnesota) While too early for much information as to crop conditions, the bankers were glad to discuss matters generally and were particularly concerned over the future of bond prices. Not many had sold any quantity of their holdings and so far as U. S. securities were concerned, most bankers seemed to feel that the Government would support the market if a serious break threatened. Other bank men have expressed themselves as expecting some market losses and were willing to accept such losses if caused from other demand which would broaden the need for advances and at better rates.

Many auction sales are being held and mostly for cash. At one sale, near Stillwater, the total receipts were \$7,000, of which only \$200 represented payment by note.

(Central Minnesota) All but one of the banks visited showed a material gain in deposits. Interest rates varied from 1% to $2\frac{1}{2}\%$. There was but a slight demand for advances, probably because of the late spring. Rates varied from $4\frac{1}{2}\%$ on real estate security to 8%; the common rate being 7%. These banks are meeting the insurance companies' and others' real estate rates. There is considerable investment in installment paper, principally automobile and farm tractors. The experience thus far has been very satisfactory and the interest income from this class of investment averages about 12%.

Bankers in this territory were very optimistic. Their small grain crops last year were excellent; markets high; corn from fair to good crops; live stock market prices were high; creameries have increased their output; the farmer's income apparently was better than the average; auction sales were at a minimum. With normal spring rains, the prospects appear to be excellent.

Kansas City

As on all previous visits, eligible nonmembers (in Oklahoma) were appreciative of being called on for the purpose of discussing the question of membership. A few indicated their probable intention of making application at later dates but more of them, while entirely friendly toward the System, were doubtful of the need in their individual cases of becoming members. The national banks without exception also were pleased at being visited and the discussions developed no criticisms nor suggestions as regards our operations.

The officers of four banks were called on and in each bank there was some discussion as to the new reserve requirements, with the general consensus of opinion among all of the officers of the banks that there had been no undesirable effect as yet from the requirements which went into effect March 1.

Dallas

(Mr. McKinney, President of the Federal Reserve Bank of Dallas, called on a large number of banks in the Rio Grande Valley during March and reported in detail upon his visits. The report is devoted largely to comment upon the management and condition of the banks visited, their attitude toward the System and their local prospects.)

San Francisco

(Imperial Valley, California) The only independent member bank in the Valley, at Holtville, is of the opinion that no borrowings will be necessary, either on account of increased reserve requirements or to care for its normal operations.

(Winslow, Arizona) There is a considerable volume of livestock in the vicinity, and copious snowfall this winter should assure ideal range conditions throughout the year. The town has enjoyed a limited amount of new residential construction, and increased tourist traffic has proved of benefit. The local bank is in an easy position and no borrowings are anticipated.

(Holbrook, Arizona) A cattle and sheep country, with conditions best in several years. Tourist traffic has greatly improved the last year or so, and a modest amount of new residential construction is in evidence. Because of a severe winter, there is an unusual demand for money from livestock men to finance feed.

(Country banks south and west of Portland, Oregon) During January and February, retail business fell off considerably because of an unusual amount of snowfall. Local trade was also affected by the marine strike, which closed logging camps and slowed up the movement of dried prunes. Weather conditions the past two weeks have permitted the opening of a few logging camps and others will be in operation as soon as the snow and the roads in the coast mountains will permit. Farmers have had a good year, and business prospects are favorable. Nearly all banks complain of the lack of profitable loans.

The member banks anticipate no difficulty in meeting increased reserve requirements and generally feel the increase to be justified.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

MARCH, 1937

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	None	None	None	None	None	None	None
New York	110	45	155	1	300	3	257
Philadelphia	*	*	134	3	2,025	1	275
Cleveland	223	83	306	2	200	4	169
Richmond	21	59	80	4	750	None	None
Atlanta	24	26	50	6	891**	None	None
Chicago	21	21	42	None	None	3	158
St. Louis	58	59	117	1	**	1	**
Minneapolis	156	285	441	None	None	1	Radio
Kansas City	17	24	41	3	236	2	76
Dallas	34	13	47	None	None	1	**
San Francisco	64	26	90	13	1,026	5	900#

*Number not indicated

**Attendance at one not reported

#Not including one radio audience.