



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 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 April in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL PRESIDENTS

X-9892-a

May 14, 1937

Memorandum to the Board

Subject: Summary of Bank Relations

From: 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 April 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

The objections of non-members to joining the System, as brought out in present and preceding reports, appear to be mainly as follows:

1. The income from exchange charged on customers' checks would have to be given up.
2. Capital requirements would be difficult or impossible to meet.
3. Too many reports would have to be submitted.
4. Charge-offs would be required and lines of credit to officers and special customers would have to be curtailed.
5. Branch offices would have to be given up.

Banking conditions

Reserve requirements and the bond market appear to be of most general interest. Complaints as to increased reserves come principally from small bankers in the middle west, many of whom say that its purpose was to enable the Federal Reserve banks to hold more securities. In the east and north, cash payments for agricultural supplies and equipment seem common. In the same parts of the country banks are increasingly interested in mortgage loans, personal loans, and pay-as-you-go checking accounts. In the south, seed and fertilizer requirements appear to have created more demand for credit by farmers than elsewhere. In the west bankers complain considerably of government lending agencies and particularly of the Production Credit Associations.

General economic conditions

Both industrial and agricultural conditions appear to be generally good, and such dissatisfaction as bankers express relates chiefly to government finances and the slack demand for credit from private enterprise.

Excerpts from the reports follow: (The reports themselves are attached to the original hereof).

Boston

(In addition to statistics of visits to banks and meetings attended, the Boston report contains a statement regarding President Young's trip to Portland on April 7 to address a group of bankers.)

New YorkDelaware, Madison, Otsego, and Schoharie Counties

Bond portfolios in the majority of banks in these counties were said to show some appreciation, although greatly reduced in amount as a result of the market reaction of the past few weeks. Officers of eleven banks, however, stated that the book value of their securities was less than market value. United States government bonds in some cases comprised as much as 60 - 70 per cent of the total portfolio value, the average being about 40 per cent, and considerable apprehension was expressed by many of the officers interviewed with respect to the future of the entire bond market, and the possible attitude of examiners toward present or further depreciation in government obligations.

Queens County

Several banks have inaugurated a no-minimum balance pay-as-you-go checking account plan using, under contract, the copyrighted system developed by the National Safety Bank and Trust Company of New York known as the Checkmaster Plan. A charge of five cents is made for each item handled (deposit slips, checks drawn, etc.). One National bank (deposits \$1,800,000) started the plan five months ago and has already opened 757 accounts. The balance on deposit in these accounts on day of visit was \$37,300 or an average of about \$50 per account. The officer interviewed said that at present the income from this class of business amounts to approximately \$12 a day. He pointed out that there is a fertile field in Flushing for development of a substantial personal loan department and checkmaster plan of checking accounts on account of the large population of the white collar class. He commented that through the checkmaster plan the "bank has something that every man on the street can use", and he estimates that within two or three years his bank should have 4,000 such accounts which would give an annual income ranging from \$12,000 to \$15,000.

Suffolk County

Loans and discounts of the county banks now total \$22,349,000 showing a decrease of about \$1,500,000 since the first of the year. The decline is due largely to the fact that many farmers this year are in a much improved financial condition because of the good income received from last year's crops of potatoes and cauliflower, so that they are paying cash for seed and fertilizer instead of borrowing.

PhiladelphiaLackawanna County

The prevailing interest rate is two per cent but one institution recently announced a reduction to $1\frac{1}{2}$ per cent and while it experienced some withdrawals, the management stated the total was not so great as they had expected.

The prevailing loaning rate is six per cent but the same institution which reduced the interest rate on deposits to $1\frac{1}{2}$ per cent, has reduced its loaning rate to five per cent, and stated that as a result of this it had experienced an increase in credit demand of \$600,000 of which \$400,000 is considered to be business which would not have been available at the six per cent rate. This action forced other banks in this immediate vicinity to reduce the rate to five per cent on some of their lines of credit.

Northern part of Third District

In nearly all of the communities visited it was reported that general business conditions had improved during the past year with beneficial effects upon the loan portfolios of the respective banks. Credit demand, however, continues to be light. The increase which might be expected at this season of the year due to the needs of the farmers has so far failed to reach the usual proportions.

All of the member banks appeared to be in a position to meet the increased reserve requirements without much difficulty although many of the bankers contended the recent increases were poorly timed for the banks in the coal mining and agricultural regions, as this is the period when deposits may be expected to decline and the demand for loans to increase. Several of them expressed doubt that the Board of Governors would lower the requirements when business increased, expressing the opinion that this authority was used for the sole purpose of providing funds to finance the operations of the Open Market Committee.

Much concern was expressed over the possibility of an enactment by the Pennsylvania Legislature reducing the maximum legal rate of interest to 5 per cent, as this matter is receiving consideration from State officials at this time.

It was found that an increasing number of banks are extending personal and equipment loans with very satisfactory results. In many instances this was found to constitute the chief demand for credit.

The cashiers of two non-member institutions, both of which will be required to become members by 1942 in order to retain deposit insurance, stated that under the reserve requirements, as effective May 1st they

Philadelphia continued

are in a better position as non-member institutions, for while under the Pennsylvania State law they are required to carry slightly higher total reserves than under the Federal reserve regulations, they are permitted to have one-third of this reserve represented by Government bonds or obligations of political sub-divisions or the Commonwealth of Pennsylvania. One of these officers also stated that membership would bar several officers of his bank from borrowing from the bank, even for business purposes, which was also a factor in their decision to remain out of the System for awhile longer.

Cleveland

The principal item of interest to bankers generally continues to be the future course of the Government bond market. Many banks express strong resentment that the market is being managed; that bond prices should be allowed to seek their own level thus affording the investors an opportunity to better determine what the trend of prices would be. Some concern was expressed over the attitude examiners would take in respect of how Governments should be carried in a bank's statement in the event of a major decline, and what the policy of the Reserve banks would be in such event with respect to the loan value of Governments pledged to secure member bank notes.

There is continued protest on the part of small banks against the increase in reserve requirements, based upon the necessity for keeping employed every possible dollar as an earning asset. This protest comes particularly from banks which have found it necessary to sell investments in order to meet the added reserve requirements. Many of these banks have not paid dividends for years because of restricted earnings. Low earnings are the result of a number of factors, such as the refusal of these institutions to apply service charges; the fact that the larger part of their deposits is time deposits upon which an average rate of 2 per centum interest is paid; the yield on investments is low; many of them are paying interest on debentures sold to the R. F. C., and many, particularly in mining towns, are affected by the handling of large payroll accounts, which tends to increase expense with no compensating income.

There is continued complaint of competition between banks and the Federal Land Bank, and Production Credit Corporation. It has been said that farmers, normally an independent class, were being demoralized by so-called patronage and subsidies. Our own observation is that protest comes largely from banks which have tried to maintain rates on loans at the levels prevailing in past years. There apparently is still a number of bankers who would prefer to make no loans at 7 or 8 per centum to making loans at 4 or 5 per centum.

Cleveland continued

There is a steady increase in the number of banks instituting personal loan or small loan departments as well as in a number of banks now handling automobile instalment notes. The experience to date has been that this business is highly profitable and losses are negligible.

Richmond

There is a remarkable similarity to the reaction of nonmember banks with respect to membership in the Federal Reserve System, and rather than repeat extracts from reports of our field representatives, which in substance say the same things over and over, suppose we consider what might be a typical case.

There have been very few new banks chartered in our district in recent years; therefore, most of our nonmember banks have been in existence for several years. Generally speaking, they are located in the agricultural sections of our district and, as a consequence, they have idle funds when crops are sold and probably need to borrow to maintain their cash position during the planting season. Almost without exception officers of nonmember banks will readily agree that the Federal Reserve Act is a remarkable legislative effort and that the system has wonderful possibilities in developing the banking structure of this country. However, with respect to their own particular bank they feel that there are certain adjustments to be made before a definite application for membership should be given us. There are, perhaps, assets to be put in better condition, or in any event the time is just not exactly right for a serious consideration of membership. With respect to the nonpar banks, of which there are over 300 in our district, their main consideration is their ability to charge exchange for the payment of checks drawn by their customers. This exchange revenue amounts in many cases to a considerable sum, and when nonpar bankers give any thought (which they seldom do) to the principles involved in discounting their customers' checks, they rather easily convince themselves that as long as other banks charge exchange and receive the resulting revenue they might also. One nonpar nonmember State bank in South Carolina told our representative that last year revenue derived from charging exchange on customers' checks amounted to nearly \$6,000. The bank has deposits of \$600,000.

There is no lack of friendliness on the part of nonmember banks to our representatives or to the official staff of our bank, but there is a decided inertia with respect to taking the steps necessary to qualify for and apply for State bank membership. It must be frankly admitted that the large city banks, nearly all of which are members of the System, do not encourage nonmember banks to become members. They argue somewhat along this line: that the city bank can and will do practically everything for the present nonmember that the Federal Reserve Bank could do

Richmond continued

and that, in addition, the nonmember bank will be relieved of what are generally regarded as an excessive amount of details relating to red tape.

Our representatives report a noticeable tendency to rebel against excessive supervision. For instance, one nonmember State bank in South Carolina told our representative that frankly he did not know anything about the Federal Reserve System, and upon being engaged in conversation about the System by our representative he said that if membership in the System involved membership in the Federal Deposit Insurance Corporation he would be opposed to such a step. This was a small bank, with deposits of \$150,000.

In discussing their affairs with nonmember banks our representatives report a number of very unusual lending policies; as, for instance, very large loans in relation to capital structure are frequently made when it would appear to be apparent that the loans in question would be slowly repaid. As an example, one nonmember bank told our representative of the loan of \$50,000 on local church property which it had made, and, as our representative expressed it, "the bank literally built the church." The loan is being reduced at the rate of about \$1,000 a year, and in the meantime the bank has practically all of its capital invested in this one loan.

We are compelled to report, reluctantly, that while without exception our visits have been of the most friendly nature there is no real interest at this time in State bank membership in our district. At the same time, we do not see any evidence of impending withdrawals from our par list. So, it appears that our district, with regard to the respective relations of member banks, par nonmember banks, and nonpar nonmember banks, will remain substantially the same.

AtlantaNashville and adjoining trade territory

The business of the city and trade territory is reported to be active and profitable in most lines, and there is a better demand for funds in mercantile and industrial establishments. In this section agriculture and live stock raising predominates and without exception the officers of the banks reported business conditions as being generally good and stated that they confidently looked forward to a continuance of present conditions during the remainder of 1937. Tobacco is grown extensively and the price received for this crop last season provided the section with substantial funds, which were supplemented by good prices received for hogs, lambs, and beef cattle. This section of the state is also noted for the raising of fine mules, for which there has been an excellent demand during the past twelve months.

Atlanta continuedSouthern Alabama

The farmers are increasing their acreage for cultivation and are purchasing fertilizer in larger quantities than for several years past. Because of the increased acreage and large purchases of fertilizer the farmers are finding it necessary to borrow rather heavily from their bankers, resulting in an increase in the volume of loans by country banks to farmers. A majority of the banks visited stated that their volume of loans is in excess of that at the same date in 1936. The chief crops of this section are cotton and corn, but a large percentage of the farmers have learned the wisdom of diversification and in some sections Irish potatoes, peanuts and other crops are grown for the purpose of supplementing the so-called "money crop" (cotton) of this section.

Southwest Georgia and southeast Alabama

The bankers in this section of the district stated that weather conditions had been exceedingly fine for the preparation of farm lands. The two main crops -- cotton and corn -- are now up, and from present indications increased production may be expected. The farmers are reported to have used fertilizer this year in generous proportions, thereby increasing business for the fertilizer companies and the amount of loans to farmers. It was gratifying to learn that the farmers of this section are each year enlarging their acreage in what is termed "supplemental crops", such as peanuts, Irish potatoes and tomatoes, and the raising of cattle and hogs.

ChicagoIllinois

Due to the April 1 tax period, there was a considerable decline in deposits, particularly in Chicago banks, which caused a few banks to borrow at the Federal Reserve bank for a short time. Most of these funds have come back to the district. Some slight increase in loans at member banks has been reported.

Indiana

Some labor trouble is reported in certain sections. However, the situation is apparently better than in some of the neighboring states. Farm labor is scarce and some skilled labor in other lines is hard to obtain. Wage increases have been somewhat general. The farming situation is said to be sold out on hay and grain.

Several non-member bankers called at the Federal Reserve bank during the month to discuss membership in the System. Some of these banks are considered favorable prospects for membership.

Chicago continuedIowa

A number of banks report that loans on real estate have increased. Other demand for money is principally for feed and seed. Some tenant farmers who were unable to secure accommodations locally have been applying to county agencies for loans. A very small amount of corn is in the hands of farmers.

Michigan

Calls were made on the principal Detroit banks during the month. Opinions received during interviews can be summarized as follows:

Loans are increasing

Installment payments are somewhat in arrears due to labor trouble

On one day, 276 cases involving evictions on account of non-payment of rent were presented to the Circuit Court Commissioners.

There is laxity in making of mortgage loans, due to competition.

A gradual increase in over-the-counter money rates is expected.

Friendly toward the Federal Reserve System.

Wisconsin

Labor situation is reported critical, particularly in Milwaukee, where a number of strikes are in progress and others are threatened. Business generally is good. One large manufacturer comments on the fact that a very large percentage of sales of farm machinery is being made for cash.

St. LouisSouthern Indiana and Illinois

Custody service was considered of prime importance by two of the banks visited. One concentrates securities at the head office because of superior marketing conditions there. The other is of the opinion that it would be appreciated by country members if the facilities were extended to permit the deposit of securities of customers as well as securities belonging to member banks.

In connection with purchase or sale of Government bonds, several bank officers stated that results were better through the Federal Reserve Bank than when those transactions were placed with brokerage houses, one having taken the trouble to make some comparative tests between Chicago brokerage houses and the Federal Reserve Bank of St. Louis.

St. Louis continued

Several banks reported increased use of non-cash collection facilities and commented on the excellent results of that service, especially the direct sending privilege.

The only adverse comment made by several members was in connection with increased reserve requirements. One was especially emphatic in his views regarding the matter though he admitted that the bank was carrying excess balances in an amount fully equaling the additional reserve required. Others also contended that there is no undue expansion of credit in this area, and that so far as country banks are concerned, the increased requirements are wholly unnecessary.

MinneapolisTerritory adjacent to the Twin Cities

One member banker was anxious to obtain further information in regard to the revisions of Regulations D and Q, and we spent more than an hour reviewing them. At the end of that time, he asked the specific question, "Why can't all these regulations be worded so that the country banker can understand them?"

A few bankers expressed their pleasure that the Federal Reserve and Treasury authorities had not rushed in to support the market when the price of government bonds first began to slip. By allowing the market to find its own level, they felt it was a "free" market instead of a "pegged" market which they believed had been in existence for many months. The hope was also expressed that now that the spell of the \$2,430 million figure had been broken the Federal Reserve authorities would not be afraid to sell when the opportunity came, not only the securities recently acquired but a portion of the previous holdings. There was a question in the minds of some of the bankers as to the actual necessity of increasing reserve requirements the full 100 per cent, although none of them would have any difficulty in meeting the additional requirements. They seemed to be of the opinion that it might have been better to have left requirements at the level reached March 1 in order that changes might be made in either direction as circumstances demanded, at some time in the future.

While only a few of the banks admitted that they were actually losing loans to Production Credit Associations, other bankers complained that their customers were using the lower PCA rates as a club to procure lower rates on barnyard loans from the banks and that this indirect loss of income was greater than that sustained from actual transfers of loans to the PCA. As has been noted on other trips, there seems to be a

Minneapolis continued

number of discontented borrowers constantly shifting from one loaning agency to another, some borrowers obtaining loans from a bank to pay off PCA indebtedness and vice versa. Several bankers commented on the changed attitude of farmers toward their obligations and felt that both the state and federal governments had contributed toward this new attitude by moratoria and the almost compulsory debt compromises in recent years.

Bankers were unanimous in their praise of the FHA Title I and Title II loans. One banker had about decided to dispose of all of his government bonds replacing them with purchased FHA insured loans. He felt that by insuring the loans the government guaranteed them and thus there was exactly the same credit behind the FHA loans as government bonds. In addition to the much more satisfactory yield on the FHA loans, he thought that by so doing he would avoid the "jittery" feeling he had experienced during the last month. Because of the unusually large volume of building in one of the former summer resort sections, which is in the process of being converted to a suburban tract section, one bank has made a larger volume of FHA Title II loans than it expects to be able to hold and consequently is considering selling some and is holding them at 3 point premium.

Land sales have been few but practically all farms that have been in distress or tied up in estates have been purchased and with these off the market, bankers are looking for a farm land boom next fall if a satisfactory crop is obtained this year.

Northern Minnesota

Most of the banks in the smaller towns are paying a rate of $2\frac{1}{2}$ percent on deposits and the banks in the larger centers are paying a rate of 2 per cent, although there is some variation. Interest rates on chattel mortgage loans usually range from 7 per cent to 8 per cent, most of such loans being made at the latter figure. Farm mortgages ordinarily carry a rate of $4\frac{1}{2}$ percent to 6 percent, but the bankers are exceedingly careful in making such loans at this time, and if they do make them, restrict the amounts and obtain ample collateral security.

Prices at auction sales uniformly have been high. Average milk cows usually sold at from \$50 to \$60 although prices ranging from \$80 to \$85 were reported. Settlement at such sales was largely on a cash basis.

There is an increasing demand for land in this agricultural section, both for rental purposes and to purchase. As early as last fall, inquiries were being received for land to rent this spring and many additional inquiries were received during the early spring months. Many

Minneapolis continued

-11-

X-9892-a

farmers looking for land to rent were from the drought stricken regions of North Dakota. It was reported that the representative of a farm mortgage company at Crockston had sold thirty-three farms since January 1, 1937. Some sales were reported at other points. In many instances, the land was sold at prices ranging from one-third to one-half the peak prices. At one point, an 80 acre farm, with fair buildings, was recently sold to a local buyer at \$45 per acre or \$3,600, of which \$1,300 was paid in cash and the remaining \$2,300 financed locally at 4 per cent.

Northern Wisconsin

The stations or branches operated by State banks in northern Wisconsin appear to be profitable, and the bankers expressed themselves as being very well satisfied with their venture in this limited form of branch banking. The _____ State Bank of _____ operates several stations, and the management took a great deal of pleasure in showing me the earnings and expense statements of these branches for 1936. Every branch earned a profit, ranging from \$700 to \$2,500 after paying all direct expenses and a proportion of head office overhead based on the distribution of deposits.

Kansas City

Bankers visited reacted in very different ways regarding the increase in reserve requirements. Some voiced no objection since they say it will have little bearing on their situation. However, many of these same bankers have their misgivings, for they feel that the increased reserves are piling up funds in the reserve banks to invest in Government bonds at a time when these bankers are unwilling to put their own funds in any substantial amount in long-term obligations. Other bankers report it will cause them to borrow or sell bonds and the bonds will be sold first. Some bankers are not disturbed by the weakness in the bond market as they expect to hold their securities until maturity. On the whole, country bankers seem to be at a considerable loss to understand the reason for the increase in reserve requirements for country banks. They understand that the policy is related to the problem of curbing speculation, to rapidly rising commodity prices, and to near boom conditions in certain industries, but they feel that is a world apart from themselves. Their problem as they see it is to take care of farmers and small business men, and in cases where the new reserve requirements pinch somewhat they are unable to see a reason for it. In short, many country bankers complain of the inflexible nature of reserve requirement changes.

DallasEastern New Mexico

Banking conditions in this State are satisfactory and well stabilized. All banks are in excellent cash position. Although the demand

Dallas continued

for loans is somewhat stronger than a year ago, interest rates are lower. Previously, loans on livestock, with negligible exceptions, were made at the rate of ten percent per annum. All such loans are now being made at eight percent. Holdings of government securities were freely discussed, but there was no indication of any panicky feeling. Many of the banks said they were in a position to maintain their holdings, and for that reason they have scarcely more than an academic interest in market fluctuations. A few banks mentioned the increase in reserve requirements. They seem to accept it as a necessary step in the control of credit expansion. Only one New Mexico bank is rediscounting with us, and only two indicated that they would possibly borrow from us this summer. These happen to have government securities which they do not care to sell to meet seasonal needs. Banks in this state do not go in for crop financing to the extent that is customary in other states of the district. While loans to farmers are freely made in the agricultural sections, they are usually based on the worth and reputation of the farmers, rather than upon chattel mortgages or crop prospects.

Northern Louisiana

The President of a comparatively new State member bank expressed satisfaction with membership, although he said it cost his bank the loss of some very desirable business. He had reference to the relinquishment of two branches, which were established after February 25, 1927, and for that reason were ineligible to be retained after his bank's admission to membership. These branch offices served as valuable "feeders", and when closed were promptly replaced with branches established by a non-member competitor. Recently oil was discovered in the region served by one of these branches and the resulting influx of capital considerably augmented the nonmember bank's deposits. Needless to say, the latter institution is not interested in membership and will not be interested so long as the Federal Reserve Act retains its present restrictions with respect to branch banking.

The Vice-president of a National bank denounced the competitive methods and activities of the government-sponsored Production Credit Associations, stating that the local agency is not only sending representatives to the homes of local farmers in an effort to win their business from the banks, but had gone so far as to solicit the business of his bank's customers in his own lobby. He approves the deletion of the definition of "interest" from Regulation Q, and also the recent increase in reserve requirements. He attributes the late disturbance in the government bond market to economic forces beyond the control of the Board of Governors - an inevitable "swing" toward a higher level of interest rates.

Dallas continued

The effects of the increase in reserve requirements on two of the banks in this section present a striking contrast. The first bank, with deposits of \$170,000, has already about exhausted its loanable funds in loans to cotton farmers, and fears that it will be necessary to borrow rather heavily to meet its enlarged reserve requirements. To the second bank, on the other hand, the new requirements are only a matter of academic interest, as it has no net demand deposit liabilities subject to reserve requirements. Its demand deposits of \$500,000 are more than offset by its "due from banks".

San Francisco

During April visits were made to banks in Kellogg, Wallace, and Wardner (Idaho) for the purpose of ascertaining the reaction of the bankers to their affiliation having been changed from the Spokane to the Seattle Branch. We found no opposition to the change, the only criticism being that on one or two occasions supplies of currency had been delayed, which matter has since been checked up with the Post Office Department.

Kent and Auburn (Washington) are located in a valley south of Seattle where the raising of garden truck is the principal agricultural pursuit. The banks in these communities find a good demand for loans, particularly in view of the fact that there has been a recent increased development in the freezing of fresh peas, corn, beans, and spinach. It is possible that one or two of the banks might be required to rediscount with the Federal Reserve Bank later this season.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

APRIL, 1937

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	4	1	5	2	95	1	60
New York	104	29	133	9	3,244	4	335
Philadelphia	88	33	126	7	1,014*	#	#
Cleveland	159	85	242	4	492	3	202
Richmond	63	63	121	15	2,381	1	150
Atlanta	60	70	130	1	400	1	65
Chicago	12	5	17	3	950	None	None
St. Louis	35	23	63	3	#	1	#
Minneapolis	101	182	283	2	210	2	150
Kansas City	9	10	19	10	1,049	6	535
Dallas	29	7	36	2	225	2	130
San Francisco	30	8	38	16	1,101	3	73

* Attendance at 2 not reported

Number not indicated