



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

R-192 92

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 21, 1938.

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 January 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 PRESIDENTS OF ALL FEDERAL RESERVE BANKS

February 17, 1938.

TO The Board of Governors                      SUBJECT: Summary of Bank  
Relations Reports.

FROM Mr. Hammond,  
Division of Bank Operations

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of January 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 general tone of comments upon the business situation is pessimistic. The comments do not, however, indicate a feeling that the business situation has grown worse, and particular cases of improvement are frequently mentioned. There is a general indication that industrial centers are suffering more than rural regions. Information as to business conditions is reported in considerable detail by New York and Philadelphia.

It continues to be a frequent complaint of bankers that reserve requirements are too high. At the same time there is also complaint of the slack demand for credit and of the difficulty of making adequate earnings. The criticism of reserve requirements appears to be expressed quite often by non-members, and to be offered as a reason for not seeking admission to the System.

The reports of four of the Reserve banks for the month of January contain no comment upon conditions. Excerpts from the reports of the other eight follow: (The reports themselves are attached to the original hereof).

#### Boston

(Boston reports that there were no banks visited, meetings attended, or addresses made during the month of January, 1938.)

#### New York

##### Dutchess, Putnam, Orange, and Rockland Counties, New York

The majority of bank officers report that the demand for accommodation is still light, although fourteen state that it is fair

New York (Continued)

to good, and six others have noticed a slight improvement recently. There appears to be no disposition to reduce the general loan rate below 6 per cent although some banks make reductions of 1 to 2 per cent on loans secured by prime collateral, and many of them grant loans to municipalities at rates lower than 6 per cent. Experience with loans made pursuant to the provisions of the National Housing Act has been very satisfactory.

There were complaints by executives of four Putnam County banks with respect to the present reserve requirements, and one of these also voiced objection to what he termed the assessment imposed upon his bank to help pay the cost of insurance of deposits of weak banks.

Business conditions in the rural areas, especially where dairying is carried on to any great extent, are somewhat more favorable than in communities which depend chiefly upon industrial activity. The prices which have been received for milk during recent months give the dairy farmer a small margin of profit. The bumper apple crop has so far brought prices that are little more than the cost of production, and a large part of the crop is still being held in cold storage. Business activity in all of the industrial cities and villages has shown a marked recession during recent months as a result of the laying off of employees, or reductions in working hours, and merchants in these communities are beginning to complain.

Essex County, New Jersey

Demand for commercial loans is said to be very light and at several banks where an increase in business or industrial credit occurred during the early part of 1937 these loans are now being paid off. The principal factors which have helped to maintain or increase the totals of credit outstanding in various institutions have been the development of personal loans, installment paper, and mortgages insured under Title II of the National Housing Act. None of the bankers interviewed seem to favor an increased percentage of insurance and reduced interest rates on Federal Housing mortgages and they express the intention of accepting only those obligations which are substantially less in amount than the appraised value of the property.

Since the early part of 1937, business and industrial activity in Newark and the surrounding area has shown a marked change. Figures compiled by the Newark Chamber of Commerce indicate that general business activity has been declining steadily since last May, that factory employment and payrolls, and sales of electric power have decreased sharply since October and that the number of business failures has been

New York continued

climbing during the past four months. Department store sales during the recent holiday season were 5 per cent less than those during the same period of 1936.

Passaic County, New Jersey

General business activity in Paterson is said to be at a considerably lower level than a year ago and many of the industrial plants have curtailed their operations materially.

Industrial activity in Passaic has declined at least 50 per cent during the last five months, according to bankers visited in that city. The president of the Botany Worsted Mills recently made a statement that the company's payroll, which dropped to \$54,000 per week last fall, is rising again, reaching \$78,000 during the first week in January as compared with payroll under normal conditions of \$90,000 to \$100,000 a week.

Two concerns manufacturing automobile accessories, springs, and cushion seats, etc., are now operating at only 20 per cent of the top employment of 1,200 workers last September, the major part of this let-down being due to the slack business prevailing in the automobile industry. The mechanical rubber goods concerns which represent the second largest industry in Passaic from the standpoint of people employed (normally about 6,000 people) have laid off 20 to 25 per cent of their forces and the remainder are working only two or three days a week. The handkerchief industry was exceptionally busy during the early part of last year but after Labor Day there was a sharp falling off in orders which has continued. The local concerns engaged in this line of manufacture are now running at about 50 to 60 per cent of normal.

Fairfield County, Connecticut

Although industrial activity decreased in the city of Bridgeport during the last half of 1937, the decline was not as great as that reported from other Connecticut industrial centers. The average weekly payrolls for the entire year of 1937 were \$1,174,000 which exceeds the average of all recent years since 1929, the previous peak year. The decrease in employment is said to be chiefly in the two largest industrial concerns of Bridgeport - the General Electric Company and the Bridgeport Brass Company. A number of local manufacturers report that orders are now beginning to come in again and that they may be able to increase the working hours of their employees.

PhiladelphiaDelaware

The area covered in Delaware depends chiefly upon diversified agriculture although nearly every city or town has some industries of

Philadelphia continued

local importance. The most important agricultural products are poultry, cantaloupes, strawberries, soy beans, sweet potatoes, cucumbers, tomatoes, fruit, and grain. While crop yields for 1937 were satisfactory, there was some disturbance in prices and in the latter part of the year they were said to have declined to about half of those prevailing in 1936. Because of a late season in Virginia and Maryland crops grown in those states were ready for market at the same time such products were ready in Delaware. Normally crops from these more southern states would be off the market before those from Delaware were ready. It is estimated by bankers in the fruit section that 90 per cent of the apple crop is in storage awaiting an increase in price.

The industries are for the most part canneries or small shirt and garment factories employing from 20 to 100 persons each. The more important industries include the manufacture of dental supplies, fibre, paper, rayon, aircraft, steel, and chemical products. The principal concerns in the larger industries, each of which employs several hundred workers, have felt the effects of the recent decline in business and have reduced operations. The available work is being spread as much as possible in order to maintain some income for the workers.

Demand for credit is light except among the poultrymen. It appears that low prices for crops last year may cause a somewhat heavier demand for credit during the coming months but the desirability of many loans may be lessened by poor prices. There is considerable mortgage financing under the provisions of the National Housing Act. One institution has financed such mortgages aggregating \$11,000,000 in Delaware and adjoining states and has sold these mortgages to investors throughout the Nation. No other institution in Delaware approaches this one in volume of business of this type but several have adopted this plan and report a satisfactory experience with such mortgages. One banker complained that the Federal Land Bank, by extending farm mortgages for longer periods of time on higher appraised valuation, and at lower rates of interest than his institution would grant, furnishes competition that he could not meet.

Nearly all of the bankers stated that the investment accounts of their institutions showed a depreciation due to the recent decline in securities prices. The ratio of obligations of the United States Government to all securities owned is increasing as more bankers appear to prefer these securities to corporate issues.

While the attitude of the bankers visited is decidedly friendly toward the Reserve System, they stated that they are not interested in membership because of the high reserves now required. Under the Delaware law the

Philadelphia continued

reserve required is 5 per cent of time and savings deposits and 10 per cent of demand deposits. Vault cash may comprise not more than one-third of the reserve required against demand deposits and, with the written permission of the bank commissioner, one-half of the reserve required may be represented by obligations of the United States, although we have no information that this privilege is being exercised. It is thought that several of the institutions visited would make desirable members but these institutions are the ones whose officers placed particular emphasis upon the reserve requirements as being the determining factor in their lack of interest in the subject.

Business conditions in Delaware improved considerably during 1937, although recession was in evidence at the end of the year. Manufacturing activity expanded sharply from January to August and for the year as a whole was at the highest level since 1929. Similarly, business at retail, including sales of new passenger automobiles, showed a gain as compared with other recent years. Sales of farm products also increased substantially during the greater part of last year and were 9 per cent larger than in 1936. In the case of building and construction, however, operations were at a much lower level in 1937 than a year before.

The following table gives percentage changes in important lines of activity for the year 1937 as compared with 1936:

<u>State of Delaware</u>	<u>% change</u>
Factory employment.....	+ 14
Factory payrolls.....	+ 22
Value of building contracts awarded.....	- 39
Sales of new passenger automobiles....	+ 15
Farm cash income.....	+ 9

Employment, wage payments and working time in Delaware factories increased substantially during the first eight months of 1937 but declined drastically after September and continued greatly reduced in the early weeks of 1938. Activity in virtually all important branches of the manufacturing industry has been sharply curtailed since early October and recessions have been especially pronounced in the case of plants turning out iron and steel products, leather, foods and building materials.

As a result of larger yields of many leading crops and higher prices in the first three quarters of the year, the income of farmers has increased considerably over the previous recent years. For the entire year 1937 farm cash income amounted to approximately \$17,450,000 or 9 per cent more than a year earlier and about double the amount realized four years ago. In the Philadelphia Federal Reserve District as a whole receipts from the sale of farm products showed a gain of 11 per cent over 1936.

Cleveland

During the last week in January approximately 175 banks whose clearing operations might be affected by the contemplated change in our transit procedure, were visited by special representatives of this bank. The plan, which is now in operation, contemplates a later closing hour, the receipt of transit items without description or sortation as to availability (except for immediate credit items), and that credit be passed on a two-day deferred basis on mixed letters. The plan has met with practically universal favor, the principal objection on the part of member banks for the past several years having been that our requirements as to sortation, and the maintenance on a member bank's books of so many deferred accounts were confusing. Consequently, a substantial number of member banks have been clearing a greater portion of their checks through correspondent banks who accept both par and non-par items without description or sortation for immediate credit.

Reports concerning the availability of desirable loans appear to be conflicting. In the corn and cattle-raising sections of southern Ohio, the present low price of beef has discouraged borrowing. On the other hand many bankers figure that corn fed to hogs is, on the basis of present market prices, producing about \$1.00 a bushel for the corn crop. In the north central part of the State of Ohio banks in two counties report an increasing demand for loans, which in some cases will, if maintained, necessitate liquidation of a portion of certain banks' investments.

Three banks in one northern Ohio county, with net earnings sufficient to justify a declaration of a dividend, have declared their reluctance to do so because of the attitude of supervisory authorities. These banks complain that competitors are using nominal dividend payments for competitive advertising purposes, and that the public reaction to non-dividend paying banks is distinctly unfavorable.

The present recession in business has given rise to numerous comments as to its cause and probable duration. While before the depression very few banks were disposed to criticise increased reserve requirements several now suggest it as a cause of the depression and feel that the time has come for reserve requirements to be reduced.

The investment problem continues to be foremost in the minds of most bankers. Many banks have seen a substantial bond appreciation wiped out by the decline in corporate issues. Many are regarding with considerable apprehension the substantial investments in railroad issues, particularly since the recent default on the part of the Erie Railroad.

Some banks report substantial increases in time deposits. In one institution a \$50,000 average over a period of years has been increased to an average of about \$200,000. In this particular case most of the increase came at maturity or call dates of government securities and the funds were not reinvested.

Richmond

(Richmond's bank relations work was interrupted by the death of Mr. John T. Garrett, Manager of the Bank Relations Department, and no general survey was submitted.)

AtlantaBaton Rouge, Louisiana

The member banks in Baton Rouge enjoyed substantial earnings during 1937. The loans made by the banks in this city are largely to commercial concerns, with only a small amount of loans being made to farmers. A nonmember state bank which opened for business June, 1937, now has a deposit liability of \$2,629,000, and its officers feel that the institution has an exceptionally bright future.

State of Florida

The tourist season on the Florida East Coast is variously reported as being equal to or slightly below that of last year. The number of visitors compares favorably with that of the previous season, but their expenditures are somewhat smaller.

The citrus crop suffered considerable damage from cold weather in December but this damage will probably be more than offset by improved prices.

In the southern part of Florida the shipment of tomatoes, beans, potatoes and other vegetables to eastern and northern markets has begun. Vegetable canning and packing plants will give employment to a large number of persons until the end of April.

In a single community on the outskirts of Miami nearly one hundred homes have been built during the past several months and the local bank has found profitable the handling of F.H.A. insured mortgages.

At Fernandina, Florida, construction of a pulp mill, at a cost of approximately \$2,500,000, has just been completed. This mill converts pine wood into pulp for use in the manufacture of paper, and will employ about 200 men. About 500 men are now engaged in the construction of a second mill, to cost approximately \$6,000,000. The operation of this second mill will give employment to between 250 and 350 men.

Generally, full use of the facilities of the Federal Reserve Bank is made by the banks interviewed, except that members of the three largest bank groups in Florida rely on the principal organization in their respective group for services which the Federal Reserve Bank might otherwise be called on to render.



Atlanta continued

The three National banks in Jacksonville, each of which heads a group banking organization, expressed concern about possible holding company legislation.

Chicago

(Chicago submitted statistics as to the number of visits made, etc., but no general report of conditions.)

St. Louis

While at the close of January some increase was shown in employment in industrial plants, it appears that the greater portion of such reemployment is due to resumption of activities following seasonal suspensions for inventories, etc.

Somewhat better conditions are to be found in the well diversified sections where a steady cash income is being derived from sales of dairy and poultry products. In some communities the banks are giving this form of agricultural work special attention and endeavoring to arouse a greater interest in the matter through offers to finance the purchase of good dairy stock.

Depressed prices offered for cotton continue to be the cause of much of the business decline in the South. Those engaged in agricultural work are being quite conservative in their expenditures, in order that they may be able to take care of spring planting with as little borrowing as possible.

The general feeling prevails that the current recession in business has about reached its lowest levels and that no further declines will be shown.

Lessening of earnings continues to be the chief source of concern. In some few localities interest rates are being lowered by commercial banks to meet the competition from governmental agencies and to retain the more desirable type of loans which have been gradually slipping away from them. In some communities a similar course has been adopted regarding industrial concerns whose owners have found that banks in the large cities are keenly anxious to take on their lines at rates considerably lower than those in the smaller industrial centers.

Some of the nonmember banks visited showed no interest whatever in the subject of membership. Income from exchange charges prevents serious consideration of membership in several cases. One bank desires to join the System, but will not do so if it has to relinquish two tellers' windows. Others have given the matter consideration, but prefer to await further developments, and one feels that nationalization is the proper course.

St. Louis continued.

Attention of a State member bank in Mississippi has been directed to the loss of income, estimated at \$175 per month, because it cannot deduct exchange. While the president of this bank has been a good friend of the System, the decline in earnings, coupled with the insistence of two correspondents for either greater balances or direct compensation, has "set him to thinking."

Quite a few banks stated that while they have no fault to find with the FRB collection service, they prefer present arrangements with correspondents under which they save clerical work and obtain immediate credit on all items. However, some of the correspondent banks have been submitting statements which indicate that such accounts are unprofitable, and have requested increased balances. Should service charges be levied, these banks will send their items to the Reserve Bank.

Several banks expressed satisfaction with transactions involving the purchase and sale of Government bonds through the Federal Reserve Bank, although one has found that it obtains better prices through its New York correspondent.

Minneapolis

Minneapolis submitted individual reports of visits to banks in Western Montana by officers of the Helena Branch. With respect to one member, the Helena Branch reports as follows: "A member bank thoroughly sold on the Federal Reserve System and a booster for the Branch. They reported earnings as excellent, having made 28 percent last year so declared a 12 percent dividend. Conditions in their locality were fine and moisture about normal."

In contrast to the foregoing is the following which refers to a non par bank only fourteen miles away: "Their earnings from exchange charges amount to \$3,000 per year. They reported earnings as fair with no dividend declared. Loans were hard to get and conditions in their community only fair. The officers don't feel very happy on the exchange charge subject, but explain it is the only way in which they think they can exist."

The following covers a visit to another Western Montana nonmember which is on the par list and carries a balance with the Federal Reserve Bank: "This bank was formerly a member of the Federal Reserve System but withdrew during the Bank Holiday in 1933. It has since applied for membership, but there is a legal question as to its eligibility still to be settled. The officers are very friendly toward the Federal Reserve System and believe that all banks should belong. Moisture conditions are better than at any time during the past seven years. Besides there was a lot of snow stored in the mountains. There have been many small homes built during the past two years. Quite a number of families from Eastern Montana and the Dakotas have been moved to the Bitter Root Valley. Local residents were cooperating to see that the

Minneapolis continued.

incoming residents would make good citizens and that they were located on tillable soil. A movement was under way for the building of dams to conserve water, to be financed by the government and farmers."

The following refers to another nonmember on the par list: "This bank is very friendly to the Federal Reserve System and carries a balance with us. They have considered joining but obtained the information from some source that unless they borrowed, there was no particular need in joining. As they have always been a non-borrower they did not consider the matter further. Complete explanations were made regarding the merits of the Federal Reserve System."

Minneapolis submits with other information a statement as to the showings of its moving picture "Back of Banks and Business". Twenty-five showings were made during the month of January, some of which were outside the district. The estimated attendance at the meetings where the picture was shown was 8,340. Minneapolis indicates that this makes an estimated total of 334,155 persons who have seen the picture.

Kansas City

General conditions in this District show little change. January was a mild month and dollar sales at reporting department stores were slightly above those of a year ago when weather conditions generally were decidedly adverse. The oil industry continues active in decided contrast to many other lines of activity. Bankers report conditions good in the larger cities of Oklahoma. But other sections of the District are not so good. In many places no progress has been made this winter in regard to the great deficiency in subsoil moisture. This is particularly true of most of Kansas and Nebraska where the condition is highly critical. This situation is uppermost in the minds of bankers for they well know from past experience that satisfactory crops following such fall and winter subsoil moisture conditions are very unusual. The meat-packing industry is adversely affected by the greatly reduced numbers of live stock resulting from years of drought.

Many merchants report that they overbought in the early part of 1937. Since then inventories have been reduced somewhat and they express the opinion that present stocks are lower than those of a year ago. Present buying is only as needed. Sales of new automobiles are reported poor and the activity in the construction industry is disappointing.

Reports coming from banks widely scattered over the District are to the effect that cattle feeders are not making money. Where feeders bought early, the fall in cattle prices since then is making it extremely difficult for them to avoid losses. There is complaint also that lamb feeding is proving unprofitable. Otherwise, banks report that live stock is moving satisfactorily and that loans are being paid. A substantial amount of corn

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Kansas City continued.

loans is being made and bankers anticipate a considerable amount of liquidation through these corn loans. Some banks report a definite falling off in the demand for loans, and there is well nigh universal complaint regarding short-time interest rates.

A state banker, whose bank is a member of the Federal Reserve System, inquired of a representative of this bank regarding the procedure in withdrawing from membership. He complained bitterly of the present reserve requirement and he left the impression that if the present requirement was likely to continue indefinitely, his bank would withdraw from membership. At the same time he expressed satisfaction with the services of this bank.

There are reports of the successful operation of regional clearing houses that cover several counties. It is said there are fourteen such organizations in Nebraska--the whole of that state being included. These regional associations apparently function quite generally as clearing houses for loan information. They are used also as mediums for securing uniform action on such matters as service charges. In many cases banks find them useful in discussing loan policy when business and agricultural conditions are undergoing changes.

Dallas

All banks visited, except one, were found to be in a comfortable cash position and stated that the present reserve requirements are not inconveniencing them at this time. However, a majority expressed the view that the reserves currently required of country banks are too high as a permanent proposition and should not be continued indefinitely. In fact, some said that the upward trend in their local demand for loans indicated the possibility that reserve requirements, unless reduced within the next few months, might hamper their normal credit operations this year.

One National bank, which has deposits of \$350,000, a complete monopoly on the banking business in its county, and a disinclination to permit its cash resources to fall much below 50 percent of its deposit liabilities, reported that a substantial number of worthy farmers in its county are on relief for lack of a moderate amount of credit assistance, which the bank would be willing to extend them but feels that it is unable to on the basis of the volume of its available loanable funds. The management stated that although a reduction of present reserve requirements would ameliorate the situation to some extent it would not completely solve it by any means, because the real trouble is that the coal miners in the region, who are of foreign extraction, habitually deposit their wages in the Postal Savings System instead of the bank, and in this way over \$100,000 of the community's cash resources has been diverted and made unavailable so far as the credit needs of the agricultural population are concerned. This, he states, is the real cause of a deplorable situation for which he sees no feasible solution.

Dallas continued.

Within the limits of such credit facilities as it possesses the bank is constructively contributing to the improvement of agricultural living conditions by making loans for the purchase of pigs, dairy cows, etc., and by freely discounting for local merchants installment notes representing sales of labor-saving household appliances. This bank, although well supplied with paper eligible for rediscount shares with other banks a reluctance to show borrowed money in its published statements; hence it does not look with favor upon that method of augmenting its funds for agricultural loan purposes.

Another National bank (with deposits of \$300,000), which had shown continuous reserve deficiencies throughout the greater part of 1937, expressed itself as not being opposed to existing reserve requirements, even though it had not been able to meet them. Its president said he recognized that the Board's action in impounding top-heavy excess reserves was justified by the factors and considerations upon which such action was based.

Business and industrial activity in this section of Oklahoma suffered to some extent from the general business recession last fall, but on the whole the situation is in nowise acute. Deposits in general are higher than a year ago, the demand for credit is brisker, and, with the exception of two counties of the eight covered by this survey, bankers and producers are expecting the year 1938 to be a fairly prosperous one.

San Francisco

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

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKSJANUARY, 1938

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	80	61	141	8	2,385	2	580
Philadelphia	41	30	71	4	246	4	360
Cleveland	78	47	125	4	533	4	198
Richmond	11	8	19	2	1,125	None	None
Atlanta	21	5	26	1	175	None	None
Chicago	11	2	13	4	1,060	4	233
St. Louis	32	24	56	1	400	None	None
Minneapolis	23	24	47	3	1,540	5	203
Kansas City	None	None	None	1	75	3	370
Dallas	17	1	18	2	275	2	575
San Francisco	3	—	3	12	554	1	25