



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

219

R-230

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 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 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 PRESIDENTS OF ALL FEDERAL RESERVE BANKS

April 19, 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 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 reports continue to reflect a gloomy view of the present business situation and of prospects. This is particularly true of industrial regions. Certain areas in the south and in the middle west are rather notable exceptions. The situation in these areas seems to be due in some cases to the expenditure of Government funds and in others to diversified farming carried on under especially favorable conditions.

The reports reflect the pressure which bankers are under as a result of the slack demand for credit, the consequent low earnings, and bond depreciation. The reaction to this pressure manifests itself variously in the effort to find new lines of business such as the marketing of insured mortgages and investment in personal loans and installment paper; in reduction of the amount of interest paid on deposits, partly by lowering the rates paid and partly, by requiring "free balances" on which no interest is paid; and in the imposition of exchange charges. In the west and in the south the pressure to resort to the latter procedure appears to be increasing. The reports indicate realization on the part of bankers that operation as independent units is becoming more and more difficult.

As usual, dissatisfaction is expressed as to one or another of the supervisory authorities under which banks are operated. Sometimes the complaint is of Government competition, particularly through Production Credit Corporations, and sometimes the complaint is of examiners, whether representing the State authorities, F. D. I. C., the Comptroller of the Currency, or the Federal Reserve bank. There is evidence of restlessness on the part of bankers, whatever the jurisdiction they are under; in some cases they are contemplating a shift from State charter to National, and in other cases a shift from National charter to State. In other words, there is a prevailing dissatisfaction with existing conditions but no uniformity or consistency in the attitude taken toward those conditions.

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

Boston

(Boston reported that no banks were visited, meetings attended, or addresses made in the month of March.)

New York

Columbia, Greene, Sullivan, and Ulster Counties, New York

A majority of the bankers interviewed state that security investments of their institutions total approximately the same as, or less than, a year ago. Only eight of the commercial banks show a current appreciation in their portfolios, the remaining thirty having a depreciation which in several cases is as high as 5 to 7 per cent. Obligations of the United States government compose on the average approximately 50 per cent of total bond accounts.

Officers of the majority of the commercial banks speak of the demand for accommodation as being fair or improving, although seventeen report it as being light. Approximately one-half of the banks show an increase in their loan portfolios during the past year. A rate of 6 per cent is charged as a rule although a number of banks grant loans secured by prime collateral at 5 per cent.

Very few criticisms were expressed regarding the Federal Reserve System or the services rendered by our bank. An executive of one national bank complained about the adverse effect upon his bank's earnings resulting from the increase in reserve requirements, the payment of assessments for Federal Deposit insurance, and the decrease in income-producing loans due to some extent to what he termed the arbitrary attitude of the examiners. An officer of another national bank indicated that some thought is being given to the surrender of the national charter and conversion into a state institution because of resentment over certain criticisms of the examiner which he considers unreasonable.

Nassau County

Since these banks were visited about six months ago, The Port Washington National Bank and Trust Company of Port Washington has absorbed by merger The Harbor National Bank of Port Washington in which its affiliate previously owned a majority of the shares of the common stock, and has also taken over the acceptable assets and assumed the deposit liabilities of the First National Bank and Trust Company of Manhasset which had been unable to sell any preferred stock to the Reconstruction Finance Corporation. These two offices are now operated as branches of The Port Washington National Bank and Trust Company. At Woodmere, the nonmember Lawrence-Cedarhurst Bank of Lawrence has established a branch office at the site formerly occupied by the Hewlett-Woodmere National Bank, which was placed in receivership in 1934. Another consolidation, resulting in operation of a branch, is being planned by two other national banks in the county.

New York continued

Many banks have been endeavoring to maintain the volume of loans by cultivating personal loans, modernization loans and Federal Housing mortgages, with the result that the present aggregate of \$39,975,000 loans is about the same as on December 31, 1937. Thirty-two institutions now have approximately \$1,100,000 outstanding in personal loans. Twenty-one banks have granted \$133,800 in modernization loans under the new provisions of Title I of the National Housing Act and twenty-six banks have made \$16,200,000 in Federal Housing Title II mortgage loans of which \$11,600,000 have been sold either to insurance companies, other banks, or to the State Comptroller. Since the enactment of the new housing bill this year, only two banks have been considering applications for Title II mortgage loans up to 90 per cent of appraised values of properties, and they have received applications totaling approximately \$250,000. A number of bankers indicate that they do not expect to grant any Federal Housing mortgage loans on a 90 per cent basis because they consider the mortgagors' equity is too small.

Bergen County, New Jersey

The deposits of most of the banks have shown an upward trend during the past year although a few institutions report some decrease. Five of the forty-two banks have reduced their basic rate of interest on savings accounts to $1\frac{1}{2}$ per cent, the other thirty-seven still retaining the 2 per cent rate although some have scaled down the rate on large amounts. A number of the banks are giving consideration to a plan of reducing interest payments on savings deposits through the requirement of free balances, and twelve banks now require, or will in the near future, a free balance of \$100 while two others require free balances of \$50 and \$25 respectively. In some of the banks which have put this plan into effect, 50 per cent or more of the savings accounts have been eliminated from interest calculations. A few of the banks have suffered a nominal loss in savings deposits as a result of this change, but this loss has been offset largely by new deposits.

Appreciation in investment accounts has been gradually diminishing as a result of the decline in security prices, so that only eleven of the forty-two banks now report an appreciation in their bond accounts, the amounts in general being small whereas depreciation in the portfolios of some of the banks is large in proportion to their capital funds. In view of conditions in the bond market and the general business situation bankers are reluctant either to buy or sell securities; consequently there is little activity in investment accounts except for the purchase or sale of United States government bonds of which all banks hold substantial amounts ranging from 9 per cent to as high as 87 per cent of their total list, the ratio of governments to total bond investments of all banks in this county being approximately 47 per cent.

Middlesex and Somerset Counties, New Jersey

Loan portfolios are still decreasing and the demand for credit is said to be very light even in the industrial centers. Earnings from

New York continued

ordinary operations continue to be a problem for most banks, and several officers mentioned that whereas their banks' earnings had benefited in previous years through recoveries and bond profits, present earnings are inadequate to take care of bond depreciation.

Philadelphia

During March representatives of this bank made regular visits to 99 member and 36 non-member banks in the central and western part of this district.

Information indicates that industrial activity is low in nearly every community visited and that without exception it is lower than it was a year ago. This naturally has resulted in increased expenditures for relief purposes and, in addition, disbursements are being made through unemployment insurance provisions. Although the area visited comprises nearly one-third of that part of Pennsylvania which is in the Third Federal Reserve District, it has a remarkable degree of interdependence. Large steel mills in Johnstown consume fire brick and bituminous coal produced in the area and the movement of these articles, particularly of coal and steel greatly affects rail operations.

Dairying provides the most satisfactory farm income. Low prices prevailed for crops last year but yields were heavy and as a result some profits were realized. The poultry business seems good, although a continuance of the decline in egg prices is likely to affect the hatcheries and poultrymen in this section.

Bank deposits in the area have declined and investment accounts have been seriously affected by the market decline, particularly those accounts which include appreciable holdings of railroad securities. In those communities in this section where railroad activity is important, the banks have been disposed to favor securities of this type and as a result have suffered. A few banks show capital impairments, but as far as could be learned no protection has been required by the supervisory authorities beyond that already in existence.

Credit demand is light, and many of the banks are developing outlets for funds through granting or purchasing F. H. A. mortgages and automobile and personal loans. New construction is confined chiefly to public grants.

A large number of bankers report that the handling of relief, W. P. A., and unemployment compensation checks comprises the bulk of their clearings on many days and, because of the volume, consideration is being given to the imposition of a charge for this service.

Philadelphia continued

The general outlook for business activity at present is full of uncertainties, as evidenced by a relatively small demand for factory products, extremely cautious buying of raw materials and semi-finished products by manufacturers, and curtailed operating schedules generally. There are also numerous instances of continuing tension between labor and management. Recent declines in commodity prices likewise have accentuated caution in respect of buying materials or manufacturing for stock in anticipation of seasonal demands.

Cleveland

It is natural that many bankers, more especially country bankers, are concerned with depreciation in bond accounts. In some cases this depreciation is substantial. There is a great deal of conjecture as to the attitude which will be taken by supervising authorities with respect to write-downs of such depreciation.

The let-down in industrial activity is becoming much more noticeable in the smaller manufacturing communities. Retail merchants are complaining bitterly of conditions, and in some instances are reporting business at the lowest level in the history of their various enterprises. This seems to be especially true in the central part of the State of Ohio.

In the southeastern portion of Kentucky (supported largely by mining operations) bankers indicate that conditions are worse than at any time during the preceding depression. There are rumors in this section of hoarding of funds. A number of bankers have expressed the belief that if it were not for the Federal Deposit Insurance Corporation there would be a collapse of our banking structure similar to that of 1932-33. Many of those voicing these opinions have heretofore frowned on deposit insurance.

Many inquiries are being made as to whether the time limit set by the terms of section 22(g) of the Federal Reserve Act, in respect of renewals or extensions of loans to executive officers originally made prior to June 16, 1933 will be extended beyond June 16, 1938. Several bankers calling at the main office in Cleveland have made similar inquiries.

In the smaller communities where business activity is slackening, there are reports of decreased deposits, both demand and time. Interest rates on savings accounts have been reduced in a number of places and some banks are doing everything possible to discourage time or savings deposits. At least one bank is refusing to renew time certificates as they mature and this bank indicates that its next step probably will be to refuse all time accounts.

Cleveland continued

In central Kentucky there is reported keen competition between banks and individuals for real estate loans; individuals in many cases offering to finance them at lower rates than the six per centum to which the banks in that community still strictly adhere. It is probable that a substantial part of the criticism directed to Federal lending agencies comes from banks which still cling to interest rates charged a decade ago.

Richmond

Fifty-six member banks and twenty-three nonmember banks were visited during the month, and officers and representatives of the bank attended several A. I. B. Chapter meetings and a group meeting of one of the State Bankers Associations.

There has been little change in the textile industry since last month, but inventories are large and unless there is an early improvement in business conditions, many of the mills expect to curtail their operations materially. The full-fashioned hosiery mills continue to operate at full capacity and on a profitable basis.

F. H. A. Loans have stimulated residential building in some sections of Maryland, South Carolina, and Virginia. A lumber association reports that lumber mills in Virginia and the Carolinas are making shipments in excess of production, thus reducing burdensome mill stocks to some extent. Contracts have been recently awarded for the erection of a hydro-electric power plant near Radford, Virginia, to cost approximately \$5,500,000; a bridge at Charleston, West Virginia, to cost more than \$700,000; and a state administration building at Raleigh, North Carolina, to cost more than \$500,000. A hotel in Roanoke, Virginia, is being enlarged at a cost of more than a million dollars. A permit was issued in March for the erection of an apartment development in Richmond, Virginia, to cost approximately \$500,000. A similar permit was issued in Baltimore in February for an apartment development to cost more than a million dollars.

Farm work is further advanced than in most years due to favorable weather and some farmers have completed their spring plowing.

Conditions in Roanoke, Virginia, remained fairly stable during the past several years due in part to the fact that the Norfolk and Western Railway has been building and repairing locomotives, coal cars, and other equipment. However, this work is falling off, and the Viscose

Richmond continued

Company of Roanoke, manufacturers of rayon yarn, has just laid off about 900 of its 5,000 employees.

AtlantaEast Tennessee

Visits were made in March to a group of banks located in a coal and lumber area of East Tennessee. Economic conditions in this area were reported as being poor. A railroad company is laying off men; coal shipments are off considerably; and many of the lumber mills have closed down. The banks visited were reported to be in fairly good condition. Deposits are being maintained and there is very little demand for credit accommodation.

Bankers located in a section of East Tennessee which is largely devoted to agriculture are optimistic, due to the fact that live stock and the tobacco crop last year brought very satisfactory prices. Prospects for this year's fruit crop are considered to be very bright. The bankers in this section all stated that their estimated losses had been removed by charge-off and that, as compared with last year, their deposits had increased but demand for loans was considerably reduced. Most of the banks have invested in Government and municipal bonds in an effort to maintain their earnings.

Jackson, Mississippi

The officers of the two member banks and the two nonmember banks in Jackson, Mississippi, expressed the view that business conditions in their city had held up remarkably well, and that the effects of the present recession had been less felt in Jackson than in any other city of comparable size in this part of the Country. Among the reasons given for the sustained business activity in Jackson were the large number of salaried persons in the employ of Federal and State agencies and the expenditure in the past two years of somewhat more than \$40,000,000 of State funds in the building of roads. The city's largest department store has experienced only a slight falling off of business as compared with a year ago.

The bankers report that their deposits are in excess of what they were at this time last year, and that loans and earnings compare favorably with the first three months of last year.

There is considerable activity in residential construction, although not equal to that which obtained during the first six months of 1957.

Atlanta continued

Florida

In the central part of the State truck crops were damaged very little by the cold and are now being gathered and marketed at very satisfactory prices. The citrus crop, which is large, was damaged in certain localities by the cold in December. It was reported that a certain amount of fruit, the quality of which had been impaired by the cold weather, was shipped to the eastern markets with the result that the price of Florida fruit declined to the point where it was not profitable to ship.

Bankers on the Florida East Coast are in general agreement that the tourist season will be slightly off from last year. Although the number of tourists in the State exceeds that of any previous season, the amount of money being spent is estimated to be from ten to twenty per cent less than last year.

All of the bankers visited expressed a friendly feeling toward the System, but the officers of nonmember banks feel that the income which they derive from exchange charges prevents their giving serious consideration to membership. None of the bankers voiced objection to the increase in reserve requirements since most of the banks have more cash than they feel they can profitably invest. One banker expressed the view that he might be tempted to be less conservative in his investment policy if reserve requirements were lower.

Visits were made to 19 banks which serve a territory paralleling the Georgia-Florida line for a distance of approximately 200 miles west of Jacksonville. Within this area is grown a diversification of crops, with cotton, corn, cattle, peanuts, hogs, tobacco, truck, naval stores and lumber the chief sources of income. Due to the variety of crops that may be grown in this area it is one of the most substantial sections of the State. During recent years the planting of Sea Island cotton has been resumed in a small way in this territory. Growers of bright leaf tobacco anticipate that the 1938 acreage will be reduced to some extent as a result of crop control measures.

Chicago

Bankers interviewed generally reported little demand for commercial loans. In several instances there has been an increase in real estate loans, due largely to the financing of residential construction and in one case refinancing of local residential loans. One bank in an Illinois town has made fifteen commitments for this type of building. One bank reports an increase in agricultural borrowing.

Several banks report deposits at new high figures. Deposits in the local Chicago banks showed considerable reduction around April 1, due to

Chicago continued

the tax period. However, their borrowings at the Federal Reserve bank amounted to only approximately \$1,000,000.

Clearing house banks of Chicago have recently abolished the flat charge to their correspondent banks for safekeeping of securities, and in the future any charge made will be based on an account analysis.

One banker interviewed is still very much opposed to the increase in reserve requirements and apparently has written to other banks inviting criticism. Several banks have complained emphatically about what they consider unfair competition of Federal Saving and Loan Associations.

A number of banks were interviewed with respect to membership in the System. Some of them state they are considering converting into National banking associations. One very much interested in membership feels that it is quite likely that it will want to establish a branch in a nearby town and for that reason will not join at this time. Another banker stated that if the double liability restriction is removed he will apply for membership immediately; otherwise his bank will probably become a National bank. One new member, the Kasper American State Bank, was admitted during March.

Valparaiso, Indiana, reports business conditions improving in its trade area.

Harvey, Illinois, states unemployment is increasing. One of its major industries is operating two days per week, while another is working one five-hour shift daily against three five-hour shifts a year ago. Another concern in this town has reduced the number of employees from approximately 1,000 to about 100.

A banker in Belvidere, Illinois, who operates a large canning factory, states that while there will be some reduction in the price of canned goods, the pack of his factory will be larger than last season. He is optimistic with respect to local conditions.

Mattoon, Illinois, reports that representatives of the major oil companies of the United States have agency offices in Mattoon which handle the business of the southern Illinois oil fields. It is anticipated that wells will be started within a few miles of Mattoon within the next ninety days. Farm land in this locality has been selling from \$125 to \$150 per acre, it being practically impossible to purchase a farm at less than \$150 per acre.

In Grand Rapids, Michigan, it is stated that the furniture business as a whole is very poor, although some makers of occasional furniture are receiving large orders. The furniture manufacturers think if the housing program makes any progress that there will be a great demand for their product.

St. Louis

General business conditions in March showed no appreciable change as compared with the two previous months. An occasional industrial plant showed increase in volume of its output resulting in some additional employment, but the increase would be entirely offset by decreased production in other lines. The ratio of industrial employment throughout the district is about 60% of a year ago, according to persons believed to be informed as to conditions in their respective communities.

The gross income for persons engaged in agriculture has shown an increase during the past twelve months, with the possible exception of growers of cotton who were not able to dispose of their 1937 holdings because of the decline in prices and used a large part of the season's crop to secure Government loans.

Considerable preliminary preparation has been accomplished, especially in the southern part of the district. While indications point to cooperation on the part of farmers in the plans for soil conservation and prevention of over-production, it is evident that a large number propose to utilize all allotted acreage for the coming season and no drastic curtailment of any of the staple crops usually grown in the district is anticipated.

Mercantile business is now feeling the effects of contraction in spending power, though in many localities it was noted that a vigorous campaign is being conducted by retailers to increase volume of sales. There is a tendency to make price concessions, even if they entail a loss, in order to reduce present stocks. This may result in acceleration of production as replacement orders are booked.

Many country banks are beginning to feel the impending demand for loans for the spring planting program. The tentative farm program will necessitate considerable aid in the way of advances from commercial banks, whose officers are willing and anxious to render all the assistance necessary in their respective communities.

Southern bankers feel that the 1938 farm program is too complicated to be understood, and their loans are being delayed because of the uncertainty. The cotton acreage program is disturbing, and will throw a lot of tenant farmers out of work, although it may be satisfactory to the small operator. Only two bankers visited expressed themselves as being in favor of the program.

In several cases, the general attitude toward the System is affected by the present reserve requirements, certain bankers being just as opposed to the increase as they were a year ago. They hope the Board of Governors will see fit to restore the original requirements.

St. Louis continued

While, in theory, a number of nonmember banks believe in paying checks at par, they are unwilling to give up the revenue from exchange charges. A southern national bank stated that it was losing money by remitting at par, but that the other benefits of membership outweigh the loss of exchange. Another southern banker stated that he had been urged to withdraw from the par list, but that he wants his customers' checks to be worth 100¢ on the dollar. Only one nonmember bank visited indicated that it expected to leave the par list. Appreciation was expressed of the arrangement recently made for handling checks on non-par banks sent us inadvertently, as it would effect quicker collection and save work.

Eight members reported curtailed use of the check collection service, and six are making more use of it than formerly. The only criticism of the service was to the effect that it is easier to send items to correspondents which give immediate credit on all items, and permit them to be listed in one letter. Lessened work for clerical staffs is an important consideration, and until correspondents levy an actual charge for the service, such collections will be sent to them.

Many members are of the opinion that the custody and currency facilities are the most valuable services performed for them by the Reserve bank.

A former Kentucky member stated that it had found membership burdensome, and that it was now free of the necessity of maintaining large balances without pecuniary benefit. Only one other nonmember showed definite antagonism toward the System. Two expressed a desire to belong to the System, but the capital requirements make them ineligible; three were not willing to relinquish their branches, which are profitable; three believed that they were too small to derive any benefit from membership; one thought that in view of the large required reserves, membership would be too costly; five would not be willing to give up exchange revenue, and four are considering nationalization.

The southern territory visited is apparently over-banked. In one 37 mile stretch, our representatives visited eight nonmember non-par banks. A Mississippi banker believes that half of the country banks will go out of business in the next three or four years.

Minneapolis

Central Minnesota

Early prospects for a large production of field crops are unfavorable in most of the territory covered. In a great many areas the farmers are already working in the fields, and some have started seeding. Bankers say that the farmers would never have known there was such a thing as the

Minneapolis continued

depression if it had not been for the publicity given by the newspapers.

Liquidation of bank loans is very good. In fact, in most cases the bankers feel it is too good, local demand for money being brisk but not enough to keep up with liquidation. Instalment financing, especially in automobile and farming equipment, is very popular, and some banks are doing a good sized business with this kind of paper. Banks have not suffered any losses. Earnings have been satisfactory. A large number of banking institutions report that their bond accounts have been reduced considerably, and in some instances only government bonds are held. As soon as possible, it is the desire of some of these institutions to dispose of their government bonds when their local loans reach a point where funds are necessary, with the exception of course of the United States Savings bonds, which are being purchased up to the limit.

Southeastern Minnesota.

In the small towns there was reported to be a rather good demand for loans, mostly with livestock security. In the larger towns, however, there was very little demand. Everywhere reports were that most of the merchants are getting along fairly well and not interested in borrowing. One of the bankers in Rochester said that he had spent practically all his time the past year in trying to work up a volume of loans, and during 1937 had made new loans (renewals not included) aggregating one million dollars, and at this time there is less than 10 percent of those loans on the books. He finds it difficult to obtain new loans fast enough to keep up with the pay-off by borrowers. The usual rates on chattel mortgages on livestock are 6 and 7 percent; there are some complaints about the competition of the Production Credit Corporation. Insurance companies are soliciting farm loans, offering funds as low as 4-1/2 percent, and a few banks are taking on choice farm loans at that rate or a little less in order to meet the competition.

There is no demand for farms and only a few isolated sales are reported at very low prices.

There is very little prospect for any construction of homes or business buildings through the district visited except in Rochester where it is planned to construct a \$300,000 auditorium with funds supplied by the Mayos. No building on the farms and almost no repair work is being done. Bankers report no interest shown regarding FHA Title I loans.

Dairying is the principal industry. In some localities there has been considerable cattle feeding, but it is declining because feeding operations this year were mostly carried on at a loss. At recent auction sales, cows sold at an average price of \$60 to \$75. At several auctions, cows brought as much as \$93 and those were grade Holsteins. The raising of hogs is also an important part of farming operations. Moisture conditions are excellent and seeding will be about two weeks earlier than usual.

Minneapolis continued

Bank earnings in 1937 were about the same as in 1936. Banks quite generally need the income derived from service charges, float charges, etc., and in no-par banks the exchange amounts to about as much as the float charge. In one no-par bank organized three years ago exchange and float charges amounted to \$5,000 last year; that bank now has deposits of \$600,000, and net earnings from operations last year amounted to \$8,000. Quite a few of the bankers were disturbed about the low bond prices. Only a few indicated that they themselves had a market loss which presented any difficulties, though they said they knew of a number of banks in the surrounding territory where bond depreciation was a serious matter.

East Central Minnesota

There is a wide variation in the practice of banks in this region relative to writing insurance. In some instances, on account of competition from mutual insurance companies, revenue from insurance is an inconsequential item. In other instances, considerable effort is devoted to this work with satisfactory results. The same situation exists with respect to clerking auction sales. Commission charged by the banks for performing the latter service ranges from 1% to 4%, with an average of about 2% on such sales.

Several bankers reported that they had received letters from one of the larger banks in Chicago to the effect that the latter would hold their securities in safekeeping without charge, provided these banks maintained a compensating balance with the Chicago bank.

But few land sales have been made recently in this territory, and these were largely to local buyers. Most of the land is farmed by the owners, and comparatively speaking, there is but little land available for rental purposes. In one town the banker said that he knew of but three tenants in the surrounding territory. In another town, the banker stated that 70% of the farms owned locally were unencumbered.

In the greater part of the territory visited, farmers have fared much better than those in most parts of the Ninth District. Diversified farming in a good farming district, to a large extent, accounts for this situation. The farmers raise cattle, hogs, sheep, poultry, turkeys, grain, potatoes, sugar beets, fruit (such as apples and plums) raspberries, strawberries, etc.

Southeastern South Dakota

As a whole, at the present time prospects for the 1938 crop are very promising, and optimism is much greater than it has been for the past few years. 75% of the crop has been sown and the winter rye and winter wheat sown last fall appear to be in excellent condition.

More than ever before, the matter of exchange is becoming a vital topic of conversation. Of the banks visited, 21 are not on the par list, while a

Minneapolis continued

number of the non-member state banks who par their checks, do so only because they are situated in the same town as a member bank. Most of the non-member banks not on the par list are small banking institutions, and exchange constitutes such an important item in their earnings that they could not exist without it.

Another important topic of conversation among the bankers visited is the matter of bond depreciation. A great number of the banks visited, however, confine their bond purchases to governments and bonds of the State of South Dakota. Bond depreciation in a number of banks has become serious and these bankers are becoming apprehensive as to what the attitude of the examiners will be upon their next examination. A number of bankers in larger centers are becoming very much concerned over the price of government bonds. They feel the government is maintaining an artificial price for the bonds and fear the day when they will be allowed to seek their own level.

Kansas City

The continued improvement in the prospect for crops is the most important subject of comment among bankers. Oklahoma has had a great deal of moisture all winter and the wheat prospects are the best in several years. The spring is unusually far advanced and there is some concern that continued heavy rains may reduce the yield by producing too much straw. In Kansas a record acreage was planted last fall and recent rains have improved the prospect, especially in western Kansas. However, in this state also there is some concern over too rank growth. The farm situation in Nebraska is quite promising. For a number of years this state has been one of the driest regions in this District, but recent surface moisture has, for the time being, greatly improved the outlook. It should be remembered, however, that the great deficiency in subsoil moisture in all of these states and particularly in Nebraska has not been made good.

Reports from over the District indicate a number of state banks that are eligible for membership are giving the matter consideration. The increased reserve requirements and F.D.I.C. membership seem about equally important as deterrent factors. State banks seem to assume that funds impounded by increased reserve requirements would otherwise be represented by investments, while in Kansas and Nebraska, especially, there are yet a goodly number of state banks that remember vividly their experience with the now defunct state guaranty laws and will avoid F.D.I.C. membership as long as possible.

Federal Housing Administration offices report a large increase in the number of applications since the amended law became effective. From reports banks are assisting wherever possible interested persons in their communities in filling out applications and making contacts with F. H. A. headquarters. Some banks are making these loans, but the majority seem to be avoiding them.

Kansas City continued

The 90 per cent loan limit is commented upon unfavorably and the opinion is expressed that it is too easy to pad certain elements of cost, particularly the value of land, to make this margin safe.

Some banks in Oklahoma and Kansas that normally do considerable oil financing report that the demand for loans is greater than they are willing to take care of and that for the first time in many years they have reached the position where they can choose the lesser risks. One reserve city banker stated that were it not for the large reserve requirements he could safely lend considerably more funds but that any addition now to his portfolio would necessitate the sale of governments or rediscounting. In other parts of the District bankers report that the demand for loans is poor and there is universal complaint with the difficulty of securing satisfactory investments.

Omaha bankers show considerable concern regarding the prospects for government wool loans in Wyoming. Normally by this time outside buyers have been in that state and contracted for the clip subject to grading when the wool reaches concentration points. On the basis of these contracts producers and banks do their temporary financing. Due to large supplies of wool in eastern warehouses and unsatisfactory prices, there has been practically no contracting for the 1938 clip. This is causing much interest in government wool loans but before these loans can be made the wool must be graded and stored in approved warehouses. At present there are no facilities either for grading or warehousing in Wyoming. Nebraska bankers say there is little disposition on the part of farmers either to sell or to place loans on corn. Apparently farmers are holding corn as a hedge against the possibility of another short crop.

The general business situation in this District is far less promising than the farm outlook. Retail sales are declining and people are not hopeful. Near the end of last year the belief was widely held that conditions would be better in the spring but the best that is now expected is improvement in the fall. The result is many concerns are retrenching and white-collar workers are being laid off. This attitude of uncertainty and waiting is especially noticeable in commercial construction. The best opinion is that in this field there is much activity waiting to be released, but it is not only not being released but there are reports of projects that were ready to go being indefinitely postponed.

Dallas

Thirteen banks in West Texas and twenty-one in South Texas were visited by our officers in March.

West Texas

An increased cotton acreage and a bountiful production of both cotton

Dallas continued

and wheat, together with a substantial acceleration of oil activities made the year 1937 a very satisfactory one in the middle zone of West Texas, despite the fall in the price levels of cotton and cattle and the repercussions of the general recession in other parts of the country.

Farmers, generally, voted for the government's cotton program in the recent referendum, but a number of those who were personally interviewed by our president expressed apprehension over the outlook for cotton producers for the year 1938. The severe curtailment of acreage resulting from the quota apportionments adopted this year is expected in some quarters to reduce the cash income of many of the smaller cotton farmers to such an extent as to create serious credit problems for them, despite the aid they will receive from the government. Most of the farmers apparently realize, however, the inexorable necessity of a sweeping curtailment of cotton production and are reconciled to the thought of making the best of the situation. Many farmers voted for the government's program because they had received loans against their 1937 crop. All of them appear to be giving intelligent thought to the use to which they will put their retired acreage in 1938, and it is quite possible that the general practice of diversification will be stimulated by the current cotton acreage reduction.

Bankers throughout this section of the State are in excellent cash position. Many of them are carrying substantial amounts of cotton producers' notes that are eligible for sale to the Commodity Credit Corporation.

No criticisms were voiced in regard to the present reserve requirements, the general policies of the Board of Governors, or the relations of the interviewed banks with the Federal Reserve bank.

Southeast Texas

Present reserve requirements were the subject of complaints offered by four member banks and one nonmember, the latter institution mentioning them as one of the reasons why it is not interested in membership at this time. However, nine of the thirteen member institutions which were questioned on the subject indicated that reserves are being maintained without inconvenience.

Several member banks in this section were mildly critical of the government's efforts to assist cotton producers, one officer asserting that the government's program is ruining the cotton farmers, who are no longer relying upon their own resources but upon the government.

Banks generally show a lower volume of deposits and a slightly increased loan account, by comparison with last year's figures, due to disappointing crop returns. Bankers are becoming slightly pessimistic as to the outlook for the immediate future, and for that reason are not inclined to invest their funds heavily in securities.

San FranciscoYakima, Washington

Apples in the Yakima district are moving very slowly, selling at an average price of 50¢ a box at the warehouse and 60¢ for extra fancy, a price below cost of production. Most of the crop would ordinarily be disposed of at this time.

Solano County, California

Visits to banks in the district from Fairfield to Davis brought out no information of particular value.

The entire area has been suffering from too much water, so that it has been impossible to prepare the fields for usual planting. The north wind of the last few days was welcome, and if they can get a few days of such drying weather, it is expected that barley can be planted on much of the acreage. It is the feeling that April 1st is the deadline in most sections and that if they are unable to get the barley planted by about that time they must allow the ground to lie fallow or plant some other crop.

Also, work in the orchards has been retarded. As a result, townsfolk who ordinarily work in the orchards and fields have been unemployed and banks have had more applications than usual for personal loans. No particular concern is felt for the fruit crop, except that some damage may have been done to apricots because of the long wet period.

More concern is expressed over prices.

Apparently, the only labor troubles which have developed acutely have been in wool shearing. Shearers have been unionized and are making demands which the owners consider exorbitant in comparison with wool prices.

Storms have by no means been entirely detrimental. Underground water tables have been rising, and the low-lying lands adjacent to the marshes have been aided. These have been encroached upon of late years by the infiltration of salt water.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

MARCH, 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	145	40	185	7	2,237	11	2,635
Philadelphia	99	36	135	5	2,868	6	350
Cleveland	209	17	226	7	1,705	2	118
Richmond	60*	24**	84	6	602	2	245
Atlanta	31	55	86	None	None	None	None
Chicago	20	7	27	4	1,217	5	290
St. Louis	76	155	231	12	3,030	2	110
Minneapolis	59	148	207	6	1,365	6	1,030
Kansas City	14	14	28	3	1,150	6	675
Dallas	24	10	34	1	850	1	#
San Francisco	12	1	13	10	685	2	750

*Includes 4 visits made in February, 1938, and not reported in that month

**Includes 1 visit made in February, 1938, and not reported in that month

#Attendance not reported.