R-153

1

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

January 3, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZKYD" - Treasury Bills to be dated January 5, 1938, and to mature April 6, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZKUP" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 5, 1938
R-154

SUBJECT: Forms for use during 1938

Dear Sir:

There are being forwarded to you today under separate cover, the number indicated of the following forms for use at your bank during 1938:

Form 160,	copies
Form 160A,	copies
Form 160B,	copies
Form 160C,	copies

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-155

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release January 5, 1938

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. Oscar Johnston of Scott, Mississippi. as a class "C" director of the Federal Reserve Bank of St. Louis for the three-year term ending December 31, 1940.

January 6. 1938.

PRESS STATEMENT

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

R-156

For immediate release

Preliminary figures received by the Board of Governors from the Federal Reserve banks indicate that current earnings of the Federal Reserve banks during 1937 amounted to $41,232,000 and total current expenses to $28,800,000. As compared with 1936, current earnings increased by $3,331,000, while current expenses were reduced by $1,074,000. Current net earnings for 1937 were $12,432,000 as compared with $8,027,000 in 1936. Additions to current net earnings during the year amounted to $3,360,000, of which $2,413,000 came from profits on sales of United States Government securities. The balance represents miscellaneous credits to current net earnings. Deductions from current net earnings include $1,423,000 representing the final assessment for the cost of the building for the Board of Governors, which was occupied by the Board in August, 1937; $2,522,000 for prior service contributions to the Retirement System, which will be completed under the present schedule by the end of 1939; $508,000 for charge-offs and reserves for losses on industrial advances and commitments, and $538,000 for other miscellaneous purposes. Making these additions to and deductions from current net earnings leaves net earnings for the year of $10,801,000 available for dividends, surplus, etc. This amount was distributed as follows: Dividends to member banks - $7,942,000; payments to Treasury of United States under provisions of Section 13b of the Federal Reserve Act relating to industrial advances - $176,000; net additions to surplus accounts - $2,683,000.

R-157

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release January 7, 1938.

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. W. C. Coffey of St. Paul, Minnesota, as class "C" director of the Federal Reserve Bank of Minneapolis for the unexpired portion of the three-year term ending December 31, 1939, to succeed Mr. F. W. Peck whose resignation as class "C" director has been submitted to the Board and accepted to be effective at the close of January 31, 1938.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZLAP" - Treasury Bills to be dated January 12, 1938, and to mature April 13, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZKYD" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-159

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 11, 1938.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of December, 1937.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-159-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
December 1 to 31, 1937.

Federal Reserve Notes, Series 1934

	$10	$20	Total Sheets	Amount
Boston	105,000	20,000	125,000	$ 12,000.00
New York	175,000	40,000	215,000	20,640.00
Philadelphia	90,000	25,000	115,000	11,040.00
Cleveland	70,000	25,000	95,000	9,120.00
Richmond	45,000	25,000	70,000	6,720.00
Atlanta	45,000	25,000	70,000	6,720.00
Chicago	100,000	50,000	150,000	14,400.00
St. Louis	40,000	25,000	65,000	6,240.00
Minneapolis	30,000	25,000	55,000	5,280.00
Kansas City	35,000	-	35,000	3,360.00
Dallas	25,000	-	25,000	2,400.00
San Francisco	75,000	40,000	115,000	11,040.00
	835,000	300,000	1,135,000	$108,960.00

1,135,000 sheets @ $96.00 per M,......$108,960.00

R-160

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release January 11, 1938

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. Dolph Briscoe of Uvalde, Texas, as a director of the San Antonio branch of the Federal Reserve Bank of Dallas for the unexpired portion of the three-year term ending December 31, 1940.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

January 11, 1938.

SUBJECT: The Theft of Two $500 Federal Reserve Notes.

Dear Sir:

There are attached a copy of a letter, dated December 22, 1937, from Mr. John E. Osborn, Agent in Charge, to Mr. Frank J. Wilson, Chief, United States Secret Service, and a copy of a letter, dated January 6, 1938, from Mr. Frank J. Wilson, Chief of the Secret Service, to Mr. Morrill, Secretary of the Board, with regard to the theft of two $500 Federal Reserve notes, serial numbers G00068970A and J00013101A.

In accordance with Mr. Wilson's request, it will be appreciated if you will bring this information to the attention of the appropriate officers and employees of your bank and branches, with the request that they notify the nearest field office of the United States Secret Service at once should either or both of these notes be received.

Very truly yours,

L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

COPY

R-161-a

TREASURY DEPARTMENT
Field Force
Secret Service Division

File 11-47/OC
Oklahoma City, Oklahoma
December 22, 1937

Mr. Frank J. Wilson,
Chief, United States Secret Service,
Washington, D. C.

Sir:

For the purpose of cooperating with local police, it will be appreciated if the Treasurer and all of the Federal Reserve Banks be requested to give notice upon their receipt of either or both of two $500 FR notes Nos. G00088970A and J00013101A.

These two notes were included in the loss of $1175 suffered by Mrs. M. Pannill, 425½ West Main Street, Oklahoma City, Oklahoma, in a hold-up that occurred in this city on December 17, 1937.

Respectfully,

(Signed) John E. Osborn

John E. Osborn,
Agent in Charge.

Approved:

(Signed) Wm. H. Davenport,
Wm. H. Davenport,
Acting Supervising Agent.

COPY R-161-b

TREASURY DEPARTMENT
Washington, D. C.

January 6, 1938.

Mr. Chester Morrill, Secretary,
Board Of Governors of the Federal Reserve System,
Washington, D. C.

Sir:

We enclose letter under date of December 22, 1937, received from our Agent in Charge at Oklahoma City, Oklahoma, which concerns two $500 Federal Reserve notes, serial numbers G00088970A and J00013101A, these notes having been recently stolen from Mrs. M. Pannill of 425½ West Main Street, Oklahoma City.

May we please be notified if either or both of these notes are received by any of the Federal Reserve Banks?

Yours very truly,

(Signed) Frank J. Wilson

Chief, Secret Service

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 1938
R-162

Dear Sir:

In order to provide a current statistical analysis of the reserve position of member banks, it will be appreciated if you will furnish the Board with five statements, in accordance with the inclosed Form R-162a, covering, respectively, (1) Central Reserve city banks, (2) Reserve city banks, (3) Country banks in places with a population of 100,000 or more according to the 1930 census, (4) Country banks in places with a population of 15,000 or more but less than 100,000, and (5) Country banks in places with a population of less than 15,000. A supply of Form R-162a, for your use in submitting the desired reports, is inclosed.

It will be noted that in each statement the member banks are to be grouped according to percentage ratios of average reserve balances to average required reserves during the week ended Friday, January 14, 1938. The number of banks in each group is to be shown, together with daily average figures of required reserves on demand deposits and on time deposits, reserve balances, and balances due from domestic banks. In addition, the number of banks in each group is to be broken down according to the ratio of balances due from domestic banks to required reserves.

We should like to have all five statements reach the Board's offices not later than Thursday, January 27. Accordingly, it is suggested that any of the statements that cannot be forwarded by regular mail or air mail in time to reach the Board's offices on that date be telegraphed. If a statement is telegraphed the code words shown on Form R-162a should be used to designate the various items of information called for by the form.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

CONFIDENTIAL 14 ANALYSIS OF RESERVE POSITION OF MEMBER BANKS DURING THE WEEK ENDED FRIDAY, JANUARY 14, 1938 R 162-a

(All amounts should be averages of daily figures for the week ended Friday, January 14, 1938. Reserve balances should be obtained from the Federal Reserve bank's books. Required reserves and balances due from domestic banks should be obtained from semi-weekly, weekly, and semi-monthly reports of deposits submitted for reserve computation purposes. Balances due from domestic banks should correspond with column 2 in such reports and, accordingly, should exclude cash items in process of collection. If, in the case of a few country banks, the reports of deposits for the semi-monthly period ended January 15, 1938 are not received in sufficient time, the daily averages for the entire semi-monthly period ended December 15, 1937 may be substituted in so far as required reserves and balances with domestic banks are concerned, but reserve balances should in all cases cover the week ended January 14, 1938. In such cases the Board should be furnished by mail with a statement showing the name and location of each bank for which a substitution was made, also the amounts of its required reserves on demand deposits, required reserves on time deposits, reserve balances, and balances due from domestic banks. A revised summary report on this form should be rendered to the Board as soon as the missing reports of deposits have been received.)

Federal Reserve District ____________ Class of banks ____________ (Amounts in thousands of dollars)

	Total number of banks in the percentage group	Aggregate average required reserves		Aggregate average reserve balances	Aggregate average excess reserves	Aggregate average balances due from domestic banks	Number of banks with the following ratios of average balances due from domestic banks to average required reserves				
		On demand deposits	On time deposits				Less than 50%	50% or more but less than 100%	100% or more but less than 150%	150% or more but less than 200%	200% or more
Code item	ABAK	ADAR	AFAM	AGRA	ACAD	AHOY	AKER	ALI[illegible]	AMOL	APIK	AREA
Banks with the following percentage ratios of average reserve balances to average required reserves:											
(1) Less than 100											
(2) 100 or more but less than 110											
(3) 110 " " " " " 125											
(4) 125 " " " " " 150											
(5) 150 " " " " " 175											
(6) 175 " " " " " 200											
(7) 200 or more											
(8) Total											

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

January 13, 1938.

Dear Sir:

There are being sent you under separate cover today copies of an address made by Mr. Szymczak on this date before the Pittsburgh Chapter of the American Institute of Banking, Pittsburgh, Pennsylvania, on the subject: "The Federal Reserve System as a Central Banking Organization".

Copies of the address are being forwarded to you for the purpose of making them available to the officers and directors of your bank and branches, if any, and to any member banks which may desire them. Additional copies will be furnished upon request.

Very truly yours,

L. P. Bethea

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

"THE FEDERAL RESERVE SYSTEM AS A CENTRAL BANKING ORGANIZATION"

ADDRESS BY

M. S. SZYMCZAK, MEMBER,
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,

before the

PITTSBURGH CHAPTER,

AMERICAN INSTITUTE OF BANKING

William Penn Hotel,
Pittsburgh, Pennsylvania,
Thursday, January 13, 1938,

6:30 P.M.

Not for publication before
6:30 P.M., Thursday,
January 13, 1938.

THE FEDERAL RESERVE SYSTEM AS A CENTRAL BANKING ORGANIZATION

Because the Federal Reserve System is distinctly American, and, unlike the central banks of Europe, is organized on a regional plan, the term "central banking" has not been very commonly applied to it. But it is an extremely useful term, for it emphasizes the essential fact that the functions of the Federal Reserve Banks are different from those of privately managed banks operated for profit. Too often, it seems to me, consideration of the purposes and activities of the Federal Reserve System is approached from the point of view of resemblances, real and imaginary, between the Federal Reserve Banks and privately managed banks. It would be more instructive to emphasize the differences. Central banking is a matter of regulating the supply and cost of credit. The Federal Reserve Banks are engaged in central banking, and privately managed banks are not.

The term central banking, which does not appear in the Federal Reserve Act, is a relatively new expression. It relates to certain specific functions directed at the money market and performed by the Federal Reserve System under the authority of the Federal Reserve Act. In other countries, similar functions are performed by the Bank of Canada, the Bank of England, the Bank of France, and the German Reichsbank, to use only a few of the many possible examples. In discussions by students, it is especially important that the thing which is being discussed be called by a name which clearly and definitely distinguishes it. I feel that recognition of the fact that the Federal Reserve System performs certain central banking functions is properly the first step to be taken toward an understanding of its essential purposes and activities.

Central banking is a public function. Either by statute or custom, every central bank is subject to a certain amount of control by the government of the country in which it is situated, though not every central bank is government owned. The twelve Federal Reserve Banks, for example, operate under the control of the Board of Governors in Washington, but their capital is supplied by the banks which are members of the Federal Reserve System and is not supplied by the government. The capital of the Bank of England, the Bank of France, and the German Reichsbank is furnished wholly by private interests. In Russia, Finland, Sweden, Australia, and New Zealand the government furnishes the entire capital of the central bank and in numerous countries - Canada, Mexico, Argentina, Guatemala, Bolivia, and others - the government furnishes an important part of the capital.

There is a central banking institution in practically every civilized country. The Bank of England and the Bank of Sweden have been in existence more than two centuries; other central banks are more than a century old; still others have been established only in recent years. The older institutions have evolved into their present position as the result of long experience and custom; the newer ones have been expressly established as central banks by law.

The reason for this difference is that the function of central banking has only gradually emerged over a long period of time. Under the economic conditions that prevailed several centuries ago there was no place for a central banking organization as we know it. The modern banking and credit system itself had not developed. The economy under which nations existed was by our present day standards a very simple one. The same thing is still true in many countries. Their industrial and financial development is such that they have little or no occasion for the services of a central banking institution. It is only where there is a diverse and highly developed economy, as in the United States and Canada, to name only two such countries, that a full and active use of central bank facilities becomes desirable and, indeed, necessary. The Bank of England, which is nearly two hundred and fifty years old, was established before the need for central banking in the modern sense had arisen. It was originally regarded as a private institution, operated for profit, and in competition with other banks. It was distinguished by the fact that it enjoyed certain privileges, made loans to the government, and acted as the fiscal agent of the government. In process of time it assumed in some cases, and in other cases had thrust upon it, the obligation to perform those services for other banks and for the money market as a whole which we now recognize as central banking services. In 1848 a Committee of the House of Commons described it as follows:

> "The Bank is a public institution, possessed of special and exclusive privileges, standing in a peculiar relation to the Government and exercising, from the magnitude of its resources, great influence over the general mercantile and monetary transactions of the country. These circumstances impose upon the Bank the duty of a consideration of the public interest, not indeed enacted or defined by law, but which Parliament in its various transactions with the Bank has always recognized and which the Bank has never disclaimed."

This statement indicates, as I said, that the present position of the Bank of England as a central bank was not determined by law, but gradually developed out of experience and custom. In this country history has been different. Here, as in many other countries, the need for central banking operations was met not by the adaptation of institutions already existing, but by establishment of institutions specially created for the purpose.

Yet it might have been otherwise in this country. If the Bank of the United States, which was established in 1791 when Washington was President and Hamilton was Secretary of the Treasury, had had its existence continued, it would be by now one of the oldest central banks in the world. The Bank of the United States was the fiscal agent for the government; its notes provided a circulating medium amenable to central control; it exercised restraint upon the note issues of the State banks. In these respects it had the beginnings of a central bank. But conditions did not then call for a central bank in the modern sense. In the modern sense, the central bank holds the reserves of the banking system and offers rediscount facilities for the replenishment of reserve balances. There were at that time, however, only a few other banks in the United States and the present day practice of maintaining reserve balances had not developed; with minor exceptions, each bank kept its reserves in its own portfolio and vault. By the same token the Bank of the United States was not generally recognized as an institution to which other banks might send their paper for discount when they needed reserve funds. The Bank was an important buyer of bills, of which there was a relatively large supply, incidental first to foreign trade and later to inland trade, but its purchases were not made, apparently, for the purpose of regulating the money or exchange market. Like those of other banks, they were made for investment and profit. The Bank's acquisition of government obligations, the supply of which was relatively small, were also made primarily for investment and profit. In process of time, however, its operations in bills and government obligations, like those of the Federal Reserve Banks and other modern central banking institutions, would undoubtedly have come to be governed not by the profit motive but by the motive of adjusting the supply of funds in the money market to the needs of sound business.

That the characteristics of a modern central bank were not developed by the Bank of the United States is logical, therefore, in view of the rather primitive economic situation then prevailing in the United States. There were few banks, no large scale production, only rudimentary transportation, and little cash capital. Because there was no occasion in such a situation for a modern central bank, the Bank of the United States was very little differentiated from other banks. Like them, it not only acquired investments for profit, but made loans to private individuals and held their deposit accounts. In these respects, therefore, it was like the Bank of England and others of the older central banks and unlike our present day Federal Reserve Banks.

The charter of the Bank of the United States was not renewed and in 1811 its existence came to an end. The need of the federal government for a fiscal agency was pressing, however, and five years later in 1816 a second Bank of the United States was chartered. As in the case of the first Bank, this institution was not confined to banking services for the government. It cultivated commercial banking business in competition with other institutions, and this fact was to a considerable extent responsible for the political hostility which eventually brought its career to an end. Because the life of the second Bank extended into a period when national development brought about quite different economic conditions from those that had obtained in the first years of the republic, the second Bank came to perform more prominently those services which we now recognize as central banking services. Like the first Bank, it was fiscal agent of the government, it sought to exercise a corrective influence upon American banking practice as a whole, it furnished a uniform circulating medium, it put pressure upon local banks to meet their obligations. During the period the second Bank was in operation under its federal charter, namely, from 1817 to 1837, intense and revolutionary changes came about. The population of the country greatly increased, a large number of new states were added to the union, transportation was immensely improved, the corporate form of enterprise with its requirement of a large supply of capital funds, such as could be available only in a money market, became common.

In spite of the great services the Bank performed and the prospects that it might in time have performed still greater ones, it became involved in a bitter political controversy with the President of the United States. Andrew Jackson ordered the federal government's deposits withdrawn and curtailed the Bank's services as fiscal agent. The Bank's charter as a federal institution was not renewed. From that time till 1914, a period of approximately eighty years, this country was without a central banking organization.

I need not remind you how important were the developments within the span of those eight decades separating the second Bank of the United States from the Federal Reserve System. The population increased from 15,000,000 to 100,000,000, the number of states from 25 to 48. The settled area expanded from the Mississippi to the Pacific. Gold was discovered in California. The Civil War was fought. Railway transportation had its beginning and spread over the whole country. The telephone and telegraph, the electric motor, the electric light, and the automobile were originated and became powerful factors in American life. Large scale production methods were worked out. The corporate form of enterprise became dominant in business. Cash capital accumulated and a great money market developed.

It was changes such as these, with their profound effects upon monetary requirements, that made the need of a central banking organization imperative. Without such an organization, there was no one recognized custodian of bank reserves, there was no one recognized lender of last resort capable of cushioning the effect of credit stringency, there was no one recognized authority watchful of untoward tendencies in the field of credit and empowered to put corrective measures into effect.

In the absence of any central banking institution to hold reserves, and in the absence of a system of widespread branch banking, the custom of the correspondent relationship had become established. Under this relationship, which of course still continues though modified in significance since the Federal Reserve Banks were established, banks throughout the country maintained their reserve balances with metropolitan correspondents. These correspondents, relatively few in number and situated mostly in New York City, performed indispensable functions for the banking system as a whole. They supplied currency, they cleared and collected checks, they rediscounted the paper of country banks. But these were not their primary functions as privately managed banks, and there was no public obligation to perform them. As much as they could, the city correspondents met the needs of the rest of the banking system, but they were under four very serious limitations. The first was that they were operated for profit and not as public institutions. The second was that they had the needs of their local non-bank customers to meet, and the needs of these customers were often in conflict with the needs of country banks. The third was that they were under inflexible reserve requirements, which diminished their rediscount powers at the very moment those powers were most needed. The fourth and perhaps most important was that they had no ready source of reserve credit available to them outside their own vaults; there was no central banking institution to which they could transfer some of their earning assets in exchange for additional reserve funds, and such relief as they could get had to be sought in a feverish and exhausted market. They stood at the end of the line, with their backs to the wall and with the credit needs of the whole country converging upon them.

This was a decidedly unsatisfactory situation. It not only meant, as I have already said, that there was no authority charged with responsibility for maintaining an orderly money market, and that there was no lender of last resort with powers flexible enough to meet both individual and general demands for additional reserve funds; it meant that in fact the public interest involved was left largely in the hands of certain metropolitan banks, whose responsibilities were divided and whose powers were incommensurate with the burden placed on them.

In establishing a central banking organization through the provisions of the Federal Reserve Act, Congress departed in important respects from the example of previously existing central banks. The most striking departure lay in creating not a single institution, such as the Bank of England, the Bank of France, the German Reichsbank, or the two former Banks of the United States, but a system of twelve regional institutions, or Federal Reserve Banks, each serving a particular district and coordinated in nation-wide policies through a governing Board in Washington.

Another departure lay in the means of providing capital for the Federal Reserve Banks. Other central banking institutions then in existence usually had their capital provided by the sale of shares to the public. This had also been the case with the two former Banks of the United States, and when the second Bank's existence as a federal institution came to an end, the government had had great difficulty in realizing upon its shares. Congress provided that the capital of the twelve Federal Reserve Banks should be supplied wholly by the banks that became members of the Federal Reserve System. But it did not thereby put the member banks in control of the Federal Reserve Banks, in the sense in which ownership of a corporation's stock ordinarily gives control. Congress predetermined the amount of capital to be supplied by the member banks, and forbade the sale, transfer or hypothecation by any member bank of the shares of Federal Reserve Bank stock owned by it. This prevented concentration of ownership by purchase of stock. Congress limited the dividends to 6 percent per annum, and reserved the Federal Reserve Bank surplus, in the event of liquidation, to the United States. It allowed the member banks to elect six out of nine directors, but required that three of the six directors elected by them represent other lines of business than banking. It authorized the governing Board in Washington to appoint the remaining three directors, designating one as Chairman and another as Deputy Chairman of the bank. It also reserved to the Board a large measure of authority over the management and activities of the twelve regional institutions. Thus it retained control of the twelve Federal Reserve Banks as governmental instrumentalities, but relieved the United States Treasury of the burden of supplying their necessary capital.

Another departure from foreign central banking organization lay in providing that privately managed banks become members of the Federal Reserve System and that as such they be required to maintain their entire legal reserves in the form of a credit on the books of the Federal Reserve Banks. In other countries, reserves were kept with the central bank as a matter of option or custom rather than law and the law did not stipulate so specifically what constituted reserves.

Still another departure lay in specifying the proportion of customers' deposits which member banks must maintain in their reserve accounts. This too was mainly a matter of custom and discretion in other countries.

In the matter of powers and functions, however, as distinguished from form of organization, Congress made little if any departure from the essentials of central banking as elsewhere exercised. First, the Federal Reserve Banks were given the power to rediscount and to purchase obligations. This enables them to perform the primary function of a central banking organization, namely, to release funds to the money market and take in exchange the obligations which are already being carried by privately managed banks and others. This may be done by rediscounting for particular banks which need reserve funds, or by purchasing government securities in the open market and thereby supplying funds to the market in general. This power of the Federal Reserve Banks to act as lenders of last resort is not under such limitations as circumscribe the lending operations of privately managed banks. A privately managed bank is bound to lose reserves in the process of making extensions of credit. If its extension of credit takes the form of purchases of bonds, the funds with which it pays for the bonds come out of its reserves and find their way at least in part to other banks. If its extension of credit takes the form of loans, the borrowed money will sooner or later be checked out, with the result that funds are transferred from its reserves to those of other banks. This must be the case so long as the banking business is divided up among different banks. But a central banking organization does not lose reserves when it makes loans or purchases securities except if the funds it gives in exchange for the obligations it acquires are taken out of the country. Otherwise when the central banking organization - in this case the Federal Reserve System - acquires an obligation, it is paid for by a credit entry to the reserve balance of some member bank. Unless gold is withdrawn for export against that reserve balance, the Federal Reserve Banks, in such a transaction, part with nothing. They have acquired certain assets and in exchange therefor have increased their liabilities.

This ability to exercise the lending function to a degree far beyond what competitive, privately managed banks can do is a peculiar and essential feature of central banks. It is the principal occasion for the existence of central banks. Because of it, privately managed banks and the money market as a whole do not find the sources of additional credit running dry just when funds are needed most. They may find the cost of credit rising, but so long as banks have assets that are discountable or salable the additional credit they require will be provided.

In this connection, it is desirable to comment on the supposed relation between the amount of reserve deposits and the ability of the Federal Reserve Banks to make loans and purchase securities. The idea that the ability of the Reserve Banks to extend credit depends upon the amount of their deposits appears to be based on a fallacious analogy between central banking organizations and privately managed competitive banks. The thought seems to be that a central banking institution is enabled to extend more credit when its deposits increase, because a commercial bank is enabled to extend more credit when its deposits increase. Such considerations are beside the point. The Federal Reserve Banks do not have their power to extend credit enlarged by an increase in reserve requirements, because they already have statutory powers to extend credit independently of the volume of reserve deposits on their books. The purpose of legal reserve requirements is not to give lending power to the Reserve Banks, but to facilitate credit regulation; and the Reserve Banks could have built up their present volume of earning assets without any reserve requirements for member banks at all. Their lending power depends upon the amount of their gold certificates and lawful money, which must be sufficient to provide a reserve of at least 35 percent of their deposits. A Federal Reserve bank, in other words, can expand its deposits by the extension of credit so long as its gold certificate and lawful money reserves are 35 percent or more of its deposits. The gold certificate holdings of the Federal Reserve Banks have long been ample to support credit extensions far beyond what there is any reason to expect will be called for. Accordingly, since the Federal Reserve Banks, as central banking institutions, already have ample powers to buy securities and make loans, there is no occasion to seek an increase in those powers, and if such an occasion existed, the object would not be sought by increasing member bank reserve requirements.

I have discussed the fact that a central banking organization supplies funds to the money market by the processes of rediscount and of securities purchases. I have also indicated that though the central banking organization may advance additional credit as required, it may do so at a higher and higher rediscount rate. In other words, without abandoning its role as lender of last resort, the central banking organization may nevertheless restrain the use of credit by the device of raising its cost. It may also restrain it by the device of selling securities in the open market; for just as central bank purchases of securities put funds in the money market, central bank sales of securities draw funds from the market.

The central banking organization, accordingly, has an active and responsible duty to perform no matter what the situation of the money market may be. It throws its weight in the direction calculated to maintain an adequate supply of credit and an orderly market. It seeks at times to encourage and at times to restrain. For several years now the Federal Reserve System has consistently followed a course of encouragement; and to that end it has lowered discount rates and made large purchases of securities. That is, it has employed the primary and customary means available to a central banking organization in maintaining a policy of monetary ease.

Congress gave two other important functions to the Federal Reserve Banks besides the essential central banking functions - rediscount and open market operations - which I have just discussed. These two others are the currency function and the fiscal agency function. They were originally the primary functions of central banks, and so far as I know they are still performed by the central banks of all countries. Currency issue, in process of time, has become of less relative importance because so large a portion of monetary payments is now made with deposit credit transferred by check. Fiscal agency, however, has become a more important function, with the great growth in the volume of government receipts and expenditures and in the size and complexity of the public debt structure.

A central banking institution is only one of the various instrumentalities and agencies which a wise government will provide for the welfare of its people. It is an important instrumentality, but it can contribute no more than its share in a concentrated effort of all agencies of the government toward the maintenance of economic stability.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 13, 1938
R - 164

Dear Sir:

Referring to the Board's letter B-1147 of April 4, 1936, there are inclosed 25 copies of the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, as revised to include changes reported to the Board through December 31, 1937.

It will be noted that the revised list does not contain the names of banks which filed agreements but are no longer in operation as nonmember banks, also that it shows only the current names of banks which changed their names after filing agreements. There are inclosed, however, statements showing the names of banks which filed agreements but are no longer in operation as nonmembers and the names of banks which changed their names after filing agreements. These statements of changes are for your information and are not to be given out in response to requests pursuant to provisions of paragraph (b) of Section 5 of Regulation T. Similar statements of changes during each year will be furnished to you hereafter with each revised list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934.

Very truly yours,

L P Bethea

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

LIST OF NONMEMBER BANKS WHICH HAVE IN FORCE AGREEMENTS FILED WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM PURSUANT TO THE PROVISIONS OF SECTION 8(a) OF THE SECURITIES EXCHANGE ACT OF 1934

(Does not contain names of banks which are no longer in operation as nonmember banks. If name of bank has been changed since the agreement was filed, only the current name is listed.)

Nonmember Banks with Principal Places of Business in the United States

California	
Anaheim	The Southern County Bank
Oakland	Central Bank
Patterson	Commercial Bank
San Diego	San Diego Trust & Savings Bank
San Francisco	Bank of Montreal (San Francisco)
"	The Canadian Bank of Commerce (California)
Stockton	Stockton Savings and Loan Bank
Connecticut	
Bridgeport	The West Side Bank
Darien	The Home Bank and Trust Company of Darien
Hartford	The Hartford-Connecticut Trust Company
"	The Park Street Trust Company
New Haven	The Community Bank and Trust Company
Stamford	The Fidelity Title & Trust Company
Delaware	
Dover	Farmers' Bank of the State of Delaware
Wilmington	Delaware Trust Company
Idaho	
Lewiston	American Bank & Trust Company
Pocatello	Idaho Bank and Trust Co.
Illinois	
Chicago	Banco di Napoli Trust Company of Chicago
Oak Park	Prairie State Bank
Indiana	
English	English State Bank
Jeffersonville	Citizens Trust Company
"	The Clark County State Bank
West College Corner (P.O. College Corner, Ohio)	The Farmers State Bank of West College Corner, Indiana
Iowa	
Waterloo	The Waterloo Savings Bank

Kentucky	
Beaver Dam	The Beaver Dam Deposit Bank
Brandenburg	Farmers Deposit Bank
Campbellsburg	United Farmers Bank
Carrollton	Kentucky State Bank
Cave City	The H. Y. Davis State Bank
Dayton	State Bank
Gravel Switch	Peoples Bank
Hardinsburg	Farmers Bank
Harrodsburg	State Bank & Trust Co.
Hawesville	Hawesville Deposit Bank
Hopkinsville	First-City Bank & Trust Company
LaGrange	First State Bank
Magnolia	Bank of Magnolia
Monterey	The First State Bank
Munfordville	Hart County Deposit Bank
New Hope	The Peoples Bank
North Pleasureville	The Central Bank
Owingsville	Owingsville Banking Company
Pineville	First State Bank
Rocky Hill	Bank of Rocky Hill
Sadieville	Farmers-Deposit Bank of Sadieville
Sharpsburg	Citizens Bank
Shelbyville	Bank of Shelbyville
"	Citizens Bank
"	The Farmers and Traders Bank
Springfield	Springfield State Bank
Taylorsville	Peoples Bank
Upton	The Davis Banking Company
Maine	
Rockland	Knox County Trust Company
Maryland	
Baltimore	The Equitable Trust Company
"	Mercantile Trust Company of Baltimore
Massachusetts	
Boston	Stabile Bank and Trust Company
Clinton	Clinton Trust Company
Lawrence	Arlington Trust Company
Lynn	Essex Trust Company
North Adams	North Adams Trust Company
Worcester	Guaranty Bank & Trust Co.
Michigan	
Detroit	Commonwealth-Commercial State Bank
Missouri	
St. Louis	Mutual Bank and Trust Company

R-164a

New Jersey

Asbury Park	Asbury Park and Ocean Grove Bank
Atlantic City	Guarantee Trust Company
Chatham	The Chatham Trust Company
Clayton	Clayton Title and Trust Company
Guttenberg	Guttenberg Bank and Trust Co.
Hammonton	Peoples Bank and Trust Company
Jersey City	Bessemer Trust Company
"	The Trust Company of New Jersey
North Bergen	Woodcliff Trust Company
Trenton	The Trenton Banking Company
"	Trenton Trust Company
Union City	Hudson Trust Company
Woodbury	Woodbury Trust Company

New York

Albion	Marine Midland Trust Company of Albion
Auburn	Auburn Trust Company
"	Wm. H. Seward & Co.
Berlin	Taconic Valley Bank
Brooklyn (New York City)	Citizens Bank of Brooklyn
"	Kings County Trust Company
Clarence	Bank of Clarence
Cortland	The Marine Midland Trust Company of Cortland
Forest Hills(New York City)	Boulevard Bank
Hudson	Hudson River Trust Company
Jamestown	Union Trust Company of Jamestown, N. Y.
Kenmore	State Bank of Kenmore
Medina	Medina Trust Company
Newburgh	The Columbus Trust Company
New York City	Banca Commerciale Italiana Trust Company
"	The Bank of Athens Trust Company
"	Bronx County Trust Company
"	Brown Brothers Harriman & Co.
"	Empire Trust Company
"	Fiduciary Trust Company of New York
"	Heidelbach, Ickelheimer & Co.
"	Huth & Co.
"	Laidlaw & Company
"	Savings Banks Trust Company
"	Title Guarantee and Trust Company
"	Underwriters Trust Company
North Tonawanda	State Trust Company of North Tonawanda
Oyster Bay	Oyster Bay Trust Company
Randolph	State Bank of Randolph
Riverhead, L. I.	Long Island State Bank & Trust Company

R-164a

New York (Continued)	
Rochester	Genesee Valley Trust Co.
"	Rochester Trust & Safe Deposit Company
"	Security Trust Company of Rochester
"	Union Trust Company of Rochester
Tonawanda	The First Trust Company of Tonawanda
Troy	The Troy Trust Company
Ohio	
Lisbon	The Firestone Bank
Milledgeville	The Milledgeville Bank
Ottoville	The Ottoville Bank Company
Sandusky	The Citizens Banking Company
Sugarcreek	Citizens Bank
Warren	The Union Savings & Trust Company
Youngstown	The City Trust & Savings Bank
Pennsylvania	
Abington	Abington Bank & Trust Company
Altoona	The Altoona Trust Company
Philadelphia	Banca Commerciale Italiana Trust Company
"	Land Title Bank and Trust Company
"	Liberty Title and Trust Company
"	Mitten Bank and Trust Company
"	Northern Trust Company
"	North Philadelphia Trust Company
"	The Real Estate Trust Company of Philadelphia
"	Wyoming Bank and Trust Company
Pittsburgh	The Arsenal Bank
Pottsville	Safe Deposit Bank of Pottsville
Prospect Park	Prospect Park State Bank
Rankin	The Rankin Bank
Tennessee	
Covington	Tipton County Farmers Union Bank
Paris	Commercial Bank & Trust Co.
Texas	
Houston	Guardian Trust Company of Houston
"	Houston Land & Trust Company
Utah	
Salt Lake City	First Security Trust Company
Vermont	
Barton	The Barton Savings Bank and Trust Company
Bellows Falls	Bellows Falls Trust Company
Brattleboro	Brattleboro Trust Co.
Wisconsin	
Cudahy	Cudahy State Bank

R-164a

Nonmember Banks with Principal Places of Business in Territories, Insular Possessions, or Foreign Countries

Canada	
Montreal	Bank of Montreal (including Agencies at New York City, Chicago and San Francisco)
"	The Royal Bank of Canada (including Agency at New York City)
Toronto	The Bank of Nova Scotia (including Agencies at New York City, Boston, and Chicago)
"	The Canadian Bank of Commerce (including Agencies at New York City, Portland, Ore., San Francisco and Seattle)
"	The Dominion Bank (including Agency at New York City)
England	
London	Banque Belge pour l'Etranger (Overseas) Limited (including Agency at New York City)
Hawaii	
Honolulu	Bank of Hawaii
"	Bishop National Bank of Hawaii at Honolulu
Italy	
Milan	Banca Commerciale Italiana (including Agency at New York City)

December 31, 1937

R-164a

BANKS WHICH FILED AGREEMENTS WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM PURSUANT TO THE PROVISIONS OF SECTION 8(a) OF THE SECURITIES EXCHANGE ACT OF 1934, BUT WHICH ARE NO LONGER IN OPERATION AS NONMEMBER BANKS

California	
Modesto	Modesto Trust and Savings Bank (Merged into The Anglo California National Bank of San Francisco, as of April 12, 1937)
Pasadena	Pasadena Savings Bank (Merged into Bank of America National Trust & Savings Association, San Francisco, as of January 25, 1937)
District of Columbia	
Washington	National Savings & Trust Company (Admitted to membership in the Federal Reserve System on January 16, 1937)
Kentucky	
Perryville	Farmers Deposit Bank (Merged into The Old Bank, Perryville, nonmember, as of November 2, 1937)
Massachusetts	
Boston	Banca Commerciale Italiana Trust Company (Ceased active banking operations on November 27, 1937, and placed in voluntary liquidation on December 29, 1937)
Stoneham	Stoneham Trust Company (Merged into Middlesex County National Bank of Everett as of September 13, 1937)
New York	
Batavia	Bank of Batavia (Merged into The Marine Trust Company of Buffalo, a member bank of the Federal Reserve System, as of January 15, 1936)
Middletown	Orange County Trust Company (Admitted to membership in the Federal Reserve System on November 23, 1936)
Ohio	
Youngstown	The Dollar Savings and Trust Company (Admitted to membership in the Federal Reserve System on March 13, 1936)
Pennsylvania	
Homestead	Monongahela Trust Company (Admitted to membership in the Federal Reserve System on July 10, 1937)
Reading	The Reading Trust Company (Admitted to membership in the Federal Reserve System on November 27, 1935)

BANKS WHICH FILED AGREEMENTS WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM PURSUANT TO THE PROVISIONS OF SECTION 8(a) OF THE SECURITIES EXCHANGE ACT OF 1934, BUT WHICH ARE NO LONGER IN OPERATION AS NONMEMBER BANKS (Continued)

Belgium Brussels	Banque Belge pour l'Etranger, including Agency at New York City (Banque Belge pour l'Etranger (Overseas) Limited, London, England, has succeeded to the business formerly transacted by the New York Agency of Banque Belge pour l'Etranger, Brussels, Belgium. The latter institution now has no agency or office in the United States and, therefore, no longer comes within the term "bank" as used in Section 8(a) of the Securities Exchange Act of 1934.)

December 31, 1937

R-164b

NONMEMBER BANKS WHICH CHANGED THEIR NAMES AFTER FILING AGREEMENTS WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM PURSUANT TO THE PROVISIONS OF SECTION 8(a) OF THE SECURITIES EXCHANGE ACT OF 1934

California	
San Francisco	Bank of America (Name and location changed as of October 22, 1937 to "Central Bank", Oakland)
Indiana	
Jeffersonville	Clark County State Bank (Name changed as of November 8, 1937 to "The Clark County State Bank")
West College Corner (P.O. College Corner, Ohio)	Farmers State Bank of West College Corner, Indiana (Name changed as of October 25, 1937, to "The Farmers State Bank of West College Corner, Indiana")
New York	
Albion	The Orleans County Trust Co. (Name changed as of December 31, 1936 to "Marine Midland Trust Company of Albion")
Cortland	Cortland Trust Co. (Name changed as of October 2, 1936 to "The Marine Midland Trust Company of Cortland")
Pennsylvania	
Philadelphia	The Real Estate-Land Title and Trust Company (Name changed as of January 31, 1936 to "Land Title Bank and Trust Company")

December 31, 1937

R-164c

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

January 14, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZLEE" - Treasury Bills to be dated January 19, 1938, and to mature on April 20, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZLAP" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1938.

SUBJECT: Holidays during February, 1938.

Dear Sir:

On Saturday, February 12, in observance of the anniversary of the birth of Abraham Lincoln, the books of the Inter-district Settlement Fund will be closed and there will be neither transit nor Federal Reserve note clearing through the Fund. For your information the Board is advised that the following Federal Reserve banks and branches will be open for business on February 12:

Boston	Atlanta	St. Louis
	Birmingham	Little Rock
Richmond	Jacksonville	
Baltimore	New Orleans	Kansas City
Charlotte		Oklahoma City

On Tuesday, February 22, the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve banks and branches will be closed.

The Board is further advised that the Havana Agency of the Federal Reserve Bank of Atlanta will be closed on Thursday, February 24, in observance of the anniversary of "Grito de Baire".

Please notify branches.

Very truly yours,

J. C. Noell

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-167

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release January 21, 1938.

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. Rufus C. Branch of Pecan Point, Arkansas, as a director of the Memphis branch of the Federal Reserve Bank of St. Louis for the unexpired portion of the term ending December 31, 1940.

R-168

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers
of Saturday, January 22, 1938.

January 21, 1938.

The Board of Governors of the Federal Reserve System today announced the following appointments:

FEDERAL RESERVE BANK OF NEW YORK

CHAIRMAN AND FEDERAL RESERVE AGENT (for remainder of current year):
Mr. Owen D. Young of New York, N. Y.

DEPUTY CHAIRMAN (for remainder of current year):
Mr. Beardsley Ruml of New York, N. Y.

CLASS "C" DIRECTOR:
For unexpired portion of term ending December 31, 1939:
Mr. Edmund E. Day of Ithaca, New York

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZLID" - Treasury Bills to be dated
January 26, 1938, and to
mature on April 27, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZLEE" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 25, 1938.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of December, 1937.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-District Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF DECEMBER, 1937

Federal Reserve Bank	Number of Words Sent	Words sent by N. Y. chargeable to other F.R. Banks	Total Words Chargeable	Personal Services (1)	Wire Rental	Total Expenses	Pro Rata Share of Total Expenses(2)	Credits	Payable to Board of Governors
Boston	40,868	1,821	42,689	$ 251.78	$ --	$ 251.78	$ 558.45	$ 251.78	$ 306.67
New York	132,025	--	132,025	995.00	--	995.00	1,727.12	995.00	732.12
Philadelphia	38,674	1,829	40,503	236.61	--	236.61	529.85	236.61	293.24
Cleveland	51,873	1,863	53,736	236.21	--	236.21	702.96	236.21	466.75
Richmond	55,330	1,784	57,114	181.50	--	181.50	747.15	181.50	565.65
Atlanta	67,498	1,775	69,273	276.07	--	276.07	906.21	276.07	630.14
Chicago	91,155	1,969	93,124	1,102.26	--	1,102.26	1,218.22	1,102.26	115.96
St. Louis	71,680	1,775	73,455	188.13	--	188.13	960.92	188.13	772.79
Minneapolis	33,177	1,805	34,982	135.55	--	135.55	457.62	135.55	322.07
Kansas City	67,663	1,778	69,441	259.18	--	259.18	908.41	259.18	649.23
Dallas	66,071	1,773	67,844	267.75	--	267.75	887.52	267.75	619.77
San Francisco	81,635	2,101	83,736	404.71	--	404.71	1,095.41	404.71	690.70
Board of Governors	519,407	--	519,407	1,472.80	11,487.03	12,959.83	6,794.74	12,959.83	--
Total	1,317,056	20,273	1,337,329	6,007.55	11,487.03	17,494.58	17,494.58	17,494.58	6,165.09

(1) Includes salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

(2) Based on cost per word ($.013081732) for business handled during the month.

X-171

CANCELLED

R-172

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 26, 1938.

Dear Sir:

In order that the Board of Governors may have information as to the extent to which different lines of business and industry have applied for credit under the provisions of Section 13b of the Federal Reserve Act, and as to size of loans approved under the authority of that Section, it will be appreciated if you will furnish the Board data as of Wednesday, December 29, 1937 regarding such applications in the form called for by the inclosed schedules.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

APPLICATIONS FOR INDUSTRIAL ADVANCES (INCLUDING COMMITMENTS
APPROVED UNDER SECTION 13b, CLASSIFIED ACCORDING TO SIZE
JUNE 19, 1934 TO DECEMBER 29, 1937

Federal Reserve Bank of ______________

Size of loan	Number of applications approved (Advances and commitments)	Amount of applications approved (Advances and commitments)
$2,500 and under		
$2,501 to $5,000		
$5,001 to $10,000		
$10,001 to $25,000		
$25,001 to $50,000		
$50,001 to $100,000		
$100,001 to $200,000		
$200,001 to $400,000		
Over $400,000		
Total*		

*The total of column 1 should agree with the sum of items 10-a and 10b column 3 of Form B-22 and the total of column 2 should agree with the sum of items 10-a and 10-b column 4 of Form B-22.

APPLICATIONS FOR INDUSTRIAL ADVANCES (INCLUDING COMMITMENTS) UNDER SECTION 13b CLASSIFIED ACCORDING TO BUSINESS AND INDUSTRIES JUNE 19, 1934 TO DECEMBER 29, 1937

R-172-b

Federal Reserve Bank of ____________

	NET APPLICATIONS RECEIVED BY INDUSTRIAL ADVISORY COMMITTEE		APPLICATIONS APPROVED BY FEDERAL RESERVE BANK (WITH AND WITHOUT CONDITIONS)			
			COMMITMENTS		ADVANCES	
	Number	Amount	Number	Amount	Number	Amount
MANUFACTURERS						
Aircraft						
Autos, trucks, & accessories						
Chemicals and allied products						
Electrical goods						
Food products						
Furniture, office and household equipment						
Hides and leather						
Jewelry and silverware						
Liquors, wines and beer						
Lumber and builders supplies						
Machinery and machine tools						
Metals						
Paper products						
Railway equipment						
Rubber goods						
Stone, clay and glass products						
Textiles						
Wearing apparel, shoes, etc.						
Wood products						
Other						
TOTAL						
WHOLESALE AND RETAIL TRADES						
Autos and accessories						
Chain and department stores						
Clothing, dry goods, jewelry						
Drugs, tobacco and liquor						
Florists, nurseries, etc.						
Food products						
Furniture						
Grain, feed, seeds, etc.						
Hardware and machinery						
Lumber and builders' supplies						
Oil						
Electrical goods						
Other						
TOTAL						
MISCELLANEOUS						
Contractors and construction						
Hotels, apartments, restaurants, etc.						
Laundries, cleaners and dyers						
Mines and quarries						
Oil and gas production						
Printing, publishing and allied trades						
Shipbuilding and repairing						
Transportation						
Other						
TOTAL						
GRAND TOTAL*						

*Columns 1 and 2 should agree with item 4 of Form B-22; the sum of columns 3 and 5 should agree with the sum of items 10-a and 10-b column 3 of Form B-22; and the sum of columns 4 and 6 should agree with the sum of items 10-a and 10-b column 4 of Form B-22.

R-173

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers, Thursday, January 27, 1938.

The following summary of general business and financial conditions in the United States, based upon statistics for December and the first three weeks of January, will appear in the February issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Industrial output declined further in December and, according to preliminary reports, showed little change in the first three weeks of January. Prices of raw materials, which had declined sharply in October and November, have been maintained since that time.

Production

Volume of industrial production declined further in December and the Board's seasonally adjusted index was at 84 percent of the 1923-1925 average as compared with 89 in November. The decline reflected chiefly a continued sharp curtailment of activity in the durable goods industries. Steel ingot production averaged about 26 percent of capacity, output of automobiles and plate glass was reduced considerably, and production of lumber and cement also declined. Total output of nondurable goods declined seasonally. There was a sharp decrease in output at silk mills, and cotton consumption declined further. At woolen mills and shoe factories, however, output was maintained, following a considerable period of sharp decline. Activity at sugar refineries increased further. Mineral production in December, as in other recent months, was at a high level. Output of crude petroleum and bituminous coal declined seasonally, while anthracite production increased somewhat.

In the first three weeks of January output of steel and automobiles increased somewhat from the extreme low levels reached in the latter part of December.

Value of construction contracts awarded in December continued in about the same volume as in the preceding three months. During this period there was a decline in awards for privately-financed projects, reflecting in large part further reductions in residential building, while publicly-financed work increased.

Employment

Factory employment and payrolls showed further declines between the middle of November and the middle of December, and employment at mines, on the railroads, and in the construction industry also continued to decrease. The decline in the number employed at factories was larger than in earlier months in industries producing durable goods, and was particularly marked in the steel, machinery, and automobile industries. For the nondurable goods industries as a group, the decline in December was about the same as in each of the previous three months, after allowance for seasonal changes. There was some increase in employment at shoe factories and little change at plants producing tobacco products, while most other industries in this group showed further decreases.

Distribution

Department store sales increased in December by about the usual seasonal amount, and the Board's adjusted index was 90 percent of the 1923-1925 average as compared with 91 percent in November and an average of 93 percent in the first ten months of the year. Mail-order business and sales at variety stores showed somewhat more than the seasonal increase, while sales of automobiles declined substantially. Preliminary reports indicate that in the first half of January sales at department stores were at about the same level as a year ago.

Railroad freight-car loadings continued to decline in December, and in that month were 18 percent lower than the average for the first half of the year, making allowance for usual seasonal change.

Commodity prices

Wholesale prices of basic commodities, after declining sharply in the autumn, showed little change in December and the first three weeks of January. Grains, cotton, print cloths, steel scrap, and bituminous coal increased somewhat, while leather, rayon, and woodpulp prices were reduced. Prices of a wide variety of finished industrial products showed further declines, and livestock products continued to decrease sharply.

Bank credit

Excess reserves of member banks increased in the four weeks ending January 19 from $1,010,000,000 to $1,370,000,000 and were larger than at any time since May 1. The post-holiday decline in money in circulation, which accounted for this growth of excess reserves, was larger than the increase that occurred before Christmas.

The volume of loans at reporting member banks in 101 leading cities declined sharply in the five weeks ending January 19, while their holdings of investments showed little net change. Declines occurred in loans to security brokers and dealers and in commercial loans, which decreased both in New York City and in other leading cities. Interbank balances were built up during the period, while other deposits decreased somewhat, reflecting largely the repayment of bank loans, partly offset by a return flow of currency from circulation.

Money rates and bond yields

The average rate on new issues of 91-day Treasury bills continued in January at less than 1/8 of 1 percent, and yields on Treasury notes and bonds declined to new low levels for recent months. Yields on the highest-grade corporate bonds also declined somewhat, while those on the lower-grade railroad issues rose.

R-174

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release. January 26, 1938.

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. W. D. Cochran of Iron Mountain, Michigan, as a class "C" director of the Federal Reserve Bank of Minneapolis for the unexpired portion of the term ending December 31, 1940.

R-175

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

January 27, 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 December in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

January 24, 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 December and excerpts therefrom will be found on the following pages. In addition to the usual table showing the number of visits made, meetings attended, and addresses delivered during the month, a table has been prepared showing the total visits made during the whole year.

The total number of visits was 11,022, of which, 6,499 were to member banks, 4,230 were to non-members, and 293 were not classified. The majority of the Reserve banks show visitation work most active at some one season of the year - usually the spring. The largest number of visits was made in March, the next largest in May, and the third largest in April. The fewest visits were made in January.

All reports from those Reserve banks that comment upon the business situation reflect concern over the low state of industrial activity. The reports give the impression that conditions are better in rural regions than in urban, for bankers say that good crops have made the volume of farm income large even though prices have fallen. While the reports in general testify to a pessimistic view of industrial conditions - Cleveland, for example, observing that in some communities "the unemployment situation is worse now than it has been at any time during the late depression" - nevertheless there are numerous items of favorable information. New York, which gives a detailed account of the business situation in certain parts of the Second district, mentions specific exceptions to the general evidence of retarded activity; several industrial centers and individual companies are named where activity is well sustained, and in certain places employment is reported as actually at a higher level than last year. There is also considerable naval and airplane construction, according to reports from New York, Richmond, and San Francisco, and preparations for the World's Fair in New York are already giving employment to several thousand persons.

Bankers complain of the slack demand for credit. Some are able to cultivate new fields - housing mortgages, personal loans and installment paper - but small country banks find few alternatives open.

Cleveland reports that there is active solicitation by city banks - particularly in Cleveland and Pittsburgh - for the correspondent business of country banks, and that there is a tendency for transit business to be transferred away from the Reserve bank. Richmond also reports active solicitation in West Virginia by a Pittsburgh bank.

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

Boston

(Boston reported that no visits were made in the month of December.)

New York

Broome, Chemung, Chenango, Cortland, Schuyler, Tioga, and Tompkins Counties, New York.

Factory employment in the Triple Cities (Binghamton, Endicott, and Johnson City) is about 10 percent above the figure for last year, due largely to increases at the metal plants, instrument and appliance factories, and in the printing and chemical industries. The Triple Cities continue to show the highest employment and payroll index in the entire State in spite of the fact that the largest industrial concern, the Endicott Johnson Shoe Company, has operated on a three-day a week basis for the past few months, the lowest since 1935. This company has received a tentative order for 2,000,000 pairs of shoes, which order, if contracted for, will give employment on a five-day a week basis to the present force of 20,000 people. During the latter part of December, the company re-entered the hide market for the first time in many weeks and purchased 20,000 cow hides at nine cents or two and one-half cents lower than the last sales reported on November 13. A number of the manufacturers in the Triple Cities distributed bonuses to their employees, which fact together with the current cold snap has stimulated purchases of winter and heavier type goods. Accordingly, retail merchants and department stores in this area are reporting sales comparable with 1936.

In the other industrial centers, Elmira, Cortland, Ithaca, and Norwich, factory employment and payrolls declined sharply in October and November as a result largely of the general falling off in business activity and the usual seasonal curtailment. Railroad employment at Sayre and Waverly shows only a slight decrease.

Farmers in this section are said to have had a good increase in income this fall, due to better prices for milk and cabbage and the lower cost of feed. The potato and bean crops were fairly good but prices were too low to enable the farmer to make any money on these crops. In Schuyler County the fruit growers sold nearly 2,400 bushels of apples to the Federal Surplus Commodities Corporation which helped to relieve an overcrowded apple market.

Cayuga, Ontario, Seneca, and Yates Counties, New York.

Reports received upon business conditions, as a general rule, were pessimistic. A very marked let-down in activity has been evidenced, especially in the industrial cities of Auburn, Canandaigua, Geneva, and

New York continued

Seneca Falls. In the other centers which are dependent chiefly upon agricultural pursuits, business was said to be only "fair", farmers having been handicapped by low prices and crop failures, and local merchants are complaining because of the public's failure to buy. Dairy farmers in this territory, in the opinion of bank officers generally, have been less affected by adverse conditions than any other class of farmer.

Kings and Queens Counties, New York

The November bulletin of the Brooklyn Chamber of Commerce states that the downward trend of business activity in the borough, which started in September, has continued through the subsequent month. Two exceptions to the general trend, however, are noted, namely, that employment at the Brooklyn Navy Yard has risen to 8,000 men with the construction of new warships there; and that the Sperry Corporation of Brooklyn, manufacturers of navigation instruments, reports that its operations are running at the highest rate in its history, with unfilled orders at a new high point.

In the Borough of Queens, one banker interviewed says that most of the business concerns in Long Island City have curtailed their operations a good deal since last September, mentioning that the Loose-Wiles Biscuit Company and several other concerns now work only four days a week in some departments, having eliminated Saturdays and Mondays. It is said, however, that the local concerns on the average made enough profits for the first nine months to carry them through in black figures for the whole year. The remark was also made that there is a feeling among many of the large local concerns that if favorable legislation is passed in Washington stagnation will diminish, and with the restoration of confidence, business will again forge ahead.

The New York World's Fair Corporation estimates that between $125,000,000 and $150,000,000 will have been spent in preparation for the Fair to be held at Flushing in Queens County before the gates open on April 30, 1939. Of this total $50,000,000 will be expended by the Fair Corporation, $30,000,000 by the city, state and federal governments, and $55,000,000 by foreign governments and private exhibitors. An executive of the Queensborough Chamber of Commerce who was interviewed, appeared very enthusiastic concerning the future outlook for Queens County and said that the county has gained twenty years in the vast improvements which have been made in the form of new tunnels, bridges, arterial highways, etc., in preparation for the World's Fair. He stated that about 4,000 people are now employed in the construction of buildings at the fair grounds and that by next June (1938) it is expected that as many as 30,000 will be engaged in work there. The statement was also made that $15,000,000 is to be expended by the City on North Beach Airport improvements which are designed to make the field the nation's foremost base for commercial traffic.

New York continued

Richmond County

Two of the large industrial concerns on Staten Island continue their operations at high capacity; the Proctor and Gamble Company, manufacturers of soap and food products, is maintaining steady employment for its regular help numbering about 1,400, who are guaranteed 50 weeks' work a year under the company's profit sharing plan, and the S. S. White Dental Manufacturing Company is now employing about 1,000 people. The majority of other industrial concerns on the Island have curtailed their operations considerably - 25 percent or more during the last three months. The United Dry Dock Company at Mariners Harbor and other shipyards which employ locally upwards of 2,500 workers have begun to lay men off in large numbers. The United Dry Dock Company has four large contracts with the government which are now expiring with no definite prospect of securing new ones to help maintain operations. This company also has contracts to build ferry boats for the City of New York which work is said to be over 50 percent completed. The United States Gypsum plant, manufacturers of plaster board, formerly employing 400, has now reduced its force to less than 100, which curtailment is said to be due to the heavy falling off in the building lines. There are also over 50 factories and shops in the needle trades manufacturing dresses and clothing of all kinds, largely under contract, which have practically closed down their shops until February when work will begin for the spring trade. The situation with these concerns is seasonal to some extent although the curtailment in operations has been more abrupt than usual.

Philadelphia

Regular visits by representatives of this bank were suspended during December to permit the concentration of efforts upon a survey of the cost assumed by the bank for the shipment of currency and coin to and from our member banks. Regular visits will be resumed not later than February 1st.

Special visits were made to 93 member banks and one non-member bank located in various parts of the Third Federal Reserve District for the sole purpose of ascertaining whether or not the costs of currency and coin services could be reduced without impairing our service to member banks. In addition to these visits, special visits were made to one non-member and two member institutions relative to check collections.

Information obtained indicates that we have been receiving a high degree of cooperation from our member banks, as many of them were sorting their teller's cash and, in many cases, exchanging money with nearby institutions. However, it was found that many banks were sending cash to the reserve bank that could have been retained for use by those banks. In such instances it was pointed out to the officer in charge that such a practice imposed a double expense upon the reserve bank as it was necessary for it to ship back into these communities money of the same denominations. In

Philadelphia continued

each case the officer interviewed stated that his institution would be glad to cooperate with the reserve bank and expressed regret that additional expenses had been imposed in the past. The attention of the management of other banks was directed to the fact that a savings in time and labor as well as in some small expense could be effected if shipments to and from the reserve bank were less frequent and of larger amounts. Our members will cooperate in this connection also. In certain of the communities where there is more than one bank and where the exchanging of money is not being done, the officers stated that they might be able to effect further savings for the reserve bank by transfers of cash between the several banks. In such cases this matter was left for these officers to settle between themselves.

Cleveland

The recession in business is now making itself felt in the small communities, some of which report that the unemployment situation is worse now than it has been at any time during the late depression. The larger industrial centers also show an increase in unemployment.

It is noted that member banks show a distinct tendency to depend more and more upon correspondent banks for services than upon their reserve banks. This is particularly true in connection with the collection of checks. A substantial number of member banks never has made use of our transit facilities, which is probably the result of a general feeling of reluctance on the part of country banks to disturb existing correspondent relationships. It is often difficult to determine whether this is a natural aversion to making a change in established habits or customs or whether they feel their correspondents can serve them better than their Federal Reserve banks.

There is a marked tendency on the part of member banks which have been using our transit facilities to transfer this activity to correspondent banks, some of which are making intensive campaigns to induce banks to clear through them. This campaigning is bearing fruit because in most instances the soliciting bank accepts cash items for immediate credit in many cases not requiring sortation or description. Member banks complain of confusion arising from the deferred credit scheme of collection in vogue at Reserve banks and claim that it is difficult to determine at any given time the exact status of their reserve accounts.

Two of the larger city banks, one in Cleveland and one in Pittsburgh, are particularly active in soliciting country bank accounts on the above basis. Night transit forces have been established to speed up the collection of checks through these institutions.

Cleveland continued

Banks continually complain of the heavy burden of taxation. Following is an excerpt from a notice to depositors of a member bank in Ohio announcing reduction of interest paid for time deposits from 2-1/2 per centum to 2 per centum effective December 1: "Revised banking laws have cut off a considerable portion of the income of a bank like ours, and taxes have become burdensome. It is also impossible today to invest funds safely and obtain a very high yield of income."

Richmond

Local newspapers in our agricultural states are emphasizing the increase in their respective localities of agricultural income.

Excessive inventories in retail business in our district have been fairly well liquidated with exception of one or two lines, notably dry goods and shoes. Excessive inventories in the hands of wholesale dealers have not been so well liquidated but progress is being made. Excessive to heavy inventories in the hands of manufacturers have perhaps been less responsive to liquidation than any of the three classifications. It is asserted for various reasons by many authorities that the inventory situation generally should clear up by mid 1938. Our Credit Department is taking special note of inventory in current statements supplied to us, and in a comparative analysis of inventory in 1936 and 1937 just obtained by our Credit Department from 10 statements the net increase in inventory in 1937 statements is 2.9 percent.

With respect to retail trade final figures are not yet available but from reports which come to us it appears that there were many complaints about lack of buying prior to the Christmas holidays and this condition existed until about one week before Christmas when buying picked up considerably and as a rule retail merchants appear to be well satisfied.

A bright spot in our district is Newport News, Virginia, and contiguous territory, this being due almost entirely to the operations of the Newport News Shipbuilding and Dry Dock Company. We are currently informed that favorable prospects previously reported still exist and it is likely that the shipyards may obtain additional orders shortly.

There has been no development of consequence in construction work throughout the district as a whole. It was reported to us that there is evidence of some building activity on the outskirts of larger cities and towns but this activity consists largely of building filling stations and eating stands.

There was no appreciable change in the textile or rayon industry in the month of December. Many mills and other manufacturing concerns took advantage of the holiday season to close down for a holiday which usually extended for a longer period than customary.

Richmond continued

There has been a moderate decline in food prices in our district, noticeably in meats.

Atlanta

On December 1, 2, and 3, President Newton and Vice-President Clark attended Group meetings of the Mississippi Bankers Association at Hattiesburg, Brookhaven, and Jackson, respectively, located in the New Orleans Branch Zone.

The bankers in this section of the State appear to be somewhat concerned over the prevailing price of cotton. It is estimated the State of Mississippi will produce in excess of 2,500,000 bales and it is believed that in some portions of the Mississippi Delta a substantial portion of the crop will not be gathered, due to the fact that the expense involved in connection with picking and ginning low grades will leave such a small margin for the growers. One prominent banker stated that in his opinion the larger cotton planters will be able to liquidate their current indebtedness but leave very little remaining after payment of all expenses in connection with this year's crop. In his opinion the smaller growers will have nothing left after payment of bank loans and will be faced with the problem of obtaining necessary funds for 1938 operations.

Chicago

(Chicago submitted only statistical information as to the number of banks visited, etc.)

St. Louis

During the month representatives of this bank visited 37 banks, of which 21 were in Arkansas and 16 in Mississippi. Following is a resume of the reports covering these visits:

The recession in general business noted during September in the Southern portion of the district continues with no material change. Some satisfaction is shown that sales appear to have found a seemingly stationary level. While the holiday trade provided a mild stimulus to retail business, the volume of sales was much lower than during the same period of 1936.

St. Louis continued

The general downward trend in the cotton market has spread to the lumber manufacturing industry in the South, with many mills curtailing production and reducing number of employees. This course has become necessary in view of greatly augmented stocks of material for which there is a steadily decreasing demand. The only exceptions to this condition, at least in Arkansas, are found in the extreme western and northwestern communities which are dependent neither upon cotton nor lumber, horticulture being the most important activity.

The unsatisfactory condition prevalent in the South has spread to the more northern States in the district, though not to so marked an extent. Business generally is being conducted on very conservative lines with but few advance commitments.

Various manufacturing lines have also sharply curtailed production, with the result that the unemployment situation is again causing deep concern and there is a heavy curtailment of buying power. This is especially true in the larger centers where the employees have not the means of subsistence available to workers in the small towns.

One remarkable feature of the decline in trade is that only a few country banks report any reduction in deposit totals, and many show actual increases. Whether this situation will last for any considerable time is questionable, the opinion being general that actual need for these funds will arise later. Most country bankers attribute the present condition to a sincere desire on the part of their customers to conserve their resources and avoid the assumption of heavy indebtedness in their plans for the 1938 season.

While deploring the decline in the price of cotton, some Southern bankers feel that the fact that not only a few, but all farmers received some cash this season should prove of great benefit and encouragement. They report good collections, indicating that indebtedness is being repaid from 1937 income.

In an effort to offset low earnings, a great many banks are acquiring a large volume of Government cotton loans which net them two and one-half per cent. The desire to secure such paper is not confined to the cotton zone, as many banks, large and small, in various other parts of the district are eagerly seeking this form of short term investment.

Minneapolis

(Minneapolis submitted only a record of visits made, etc., without comment except for a report upon a meeting attended.)

Kansas City

Some country bankers express concern over the future of their institutions. They are the depositories for their communities but find little demand for funds. This is particularly true in regions where banks in the past have been accustomed to substantial live stock loans. Some of these communities now have few cattle and hogs and in lending funds the banks do not know which way to turn. These bankers are out of touch with the commercial paper and investment markets and in addition they maintain they cannot live on one or two per cent. The opinion is expressed that they see little prospect for a change in this general situation.

Among these same bankers there is bitter complaint about the competition of production credit associations. There is little opposition to government lending agencies when such lending is of an emergency nature, but banks report that in some communities production credit associations are aggressively soliciting loans on a 4½ per cent basis.

Banks report that they are increasing their real estate loans. These loans average possibly five years, but the loan usually provides an amortization feature. The impression is gained in conversation with bankers that they regard such loans generally as unsuitable for banks but that necessity compels the practice. Increasingly banks are making automobile loans and they report very satisfactory experience with them. The loan is made to the dealer on a more favorable basis than he can secure from a finance company. Banks attempt to keep the amount of the loan somewhat under the amount the dealer loaned to the car owner. Such an arrangement keeps alive the interest of the dealer in the loan, and under such conditions banks report that their experience with these loans has been good.

There is still diversity of opinion expressed regarding the increase in reserve requirements. One state banker, who has only recently become a member of the Federal Reserve System, volunteered the information that his bank would not have joined the System had he known that the reserve requirement would be increased. Other banks report that the increase was of no consequence to them; that they are still carrying an excessive amount of cash and that reserve requirements have little or no bearing on this situation. Such banks report that in case there is a demand for loans, they will reduce their investments. The complaint is heard that the Federal Reserve System does not understand the psychology of a bank. It is maintained that it is not the function of a bank to borrow money and that the recent lowering of rediscount rates will fail in its purpose of restraining banks from selling government securities, if and when the demand for desirable loans increases.

The past year has witnessed a rather remarkable expansion of the oil industry in Kansas. Land owners and other types of business are feeling the effect of this activity. Government estimates show a new high in Kansas

Kansas City continued

wheat acreage, this state having more than 30 per cent of the country's winter wheat acreage, but local observers express the opinion that the government figure is too high. Germination last fall in western Kansas was highly unsatisfactory and abandonment undoubtedly will be large. Banks in Oklahoma report the feed situation in that state unusually good. It is also said that farmers are holding considerable quantities of wheat and cotton. In the case of cotton there appears to be a tendency neither to sell nor to seek a loan but rather to wait and see what action the new session of Congress may take. Reports also are that retail sales in the smaller Oklahoma towns are not nearly as favorable as those in Oklahoma City and Tulsa.

Dallas

Rio Grande Valley

Banks visited in the lower Rio Grande Valley and Coastal Plains of Texas reported agricultural and business conditions only fairly satisfactory. Climatic conditions were distinctly favorable during the past growing season to the production of cotton in these areas, and the large yield was harvested and sold prior to the sharp price recession in the cotton market. A fair-sized citrus fruit crop was produced in the Lower Rio Grande Valley, and although it was 20 per cent smaller than the 1936 crop the prices were about 25 per cent higher, producers receiving from $16 to $18 per ton for grapefruit and from $26 to $30 per ton for oranges.

Despite these factors, however, these sections were found to be in only fair economic condition. A prolonged and severe drouth adversely affected vegetable crops and otherwise militated against agricultural prosperity. Some communities reported they had felt the effects of the business recession.

Bankers in these areas made no complaints against present reserve requirements. Their banks appear to be in comfortable cash positions. It is expected, however, that the normal demand for seasonal credit for agricultural purposes will appear in January and this factor, together with the seasonal decline in deposits, is expected to absorb excess reserves and may bring about a situation during the spring that will make the rural member banks feel the pinch of high reserve requirements.

San Francisco

Salinas Valley

Bankers in the Salinas Valley report returns from the lettuce crop in the past season somewhat less than normal, and rather unsatisfactory conditions among the bean growers. White beans are selling at $2\frac{1}{4}$ cents per

San Francisco continued

pound in comparison with 4 cents in previous years.

While the banks are in funds at the present time, there may be need for credit accommodations in the early spring.

Pasadena District

Merchants had a better year than had been anticipated. Tourist traffic is heavy and hotels are all full. Real estate is dull. Wealthy investors showing timidity.

Orange County

Unusual number of credit lines of citrus growers being carried over until next season.

Moisture and weather conditions have been favorable to agriculture so far this winter.

Local retailers enjoy an excellent trade during pre-holiday season.

Suburban Los Angeles

Conditions are reported to be fairly good considering the uncertainty of employment in industrial plants and close proximity of retailers to large competitive retail stores in downtown Los Angeles.

Airplane manufacturing plants have been busy. Merchants in the localities adjacent to these plants reported excellent pre-holiday season trade.

R-175-a

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

DECEMBER, 1937

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	None	None	None	1	*	None	None
New York	124	44	168	6	4,705	5	1,475
Philadelphia	95	2	97	5	3,429	2	204
Cleveland	67	48	115	3	4,475	None	None
Richmond	70	64	134	3	450	1	200
Atlanta	11	10	21	3	375	None	None
Chicago	10	36	46	4	3,775	2	175
St. Louis	24	13	37	4	*	4	405
Minneapolis	11	11	22	5	152	1	50
Kansas City	2	3	5	1	85	2	595
Dallas	11	1	12	None	None	None	None
San Francisco	30	17	47	6	154	4	180

*Attendance not estimated

VISITS TO MEMBER AND NON-MEMBER BANKS
JANUARY - DECEMBER, 1937

Federal Reserve Bank		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total	Number of banks in operation 2/
Boston	Member	-	-	-	4	4	31	59	37	64	13	41	-	253	357
	Non-mbr.	-	-	-	1	4	-	2	2	-	1	-	-	10	171
	Total	-	-	-	5	8	31	61	39	64	14	41	-	263	528
New York	Member	62	123	110	104	119	132	100	124	122	113	101	124	1,334	776
	Non-mbr.	38	52	45	29	82	55	39	46	38	30	41	44	539	274
	Total	100	175	155	133	201	187	139	170	160	143	142	168	1,873	1050
Phila-delphia	Member	*	*	*	88	40	68	65	73	63	47	69	95	608	655
	Non-mbr.	*	*	*	38	15	17	23	16	34	13	22	2	180	257
	Total	72	75	134	126	55	85	88	89	97	60	91	97	1,069#	912
Cleveland	Member	50	149	223	159	103	15	13	-	9	97	106	67	991	622
	Non-mbr.	15	62	83	83	63	16	2	-	10	81	122	48	585	611
	Total	65	211	306	242	166	31	15	12**	19	178	228	115	1,588##	1233
Richmond	Member	48	15	21	63	47	36	49	25	86	38	60	70	558	405
	Non-mbr.	10	33	59	68	58	52	71	75	87	60	44	64	681	665
	Total	58	48	80	131	105	88	120	100	173	98	104	134	1,239	1070
Atlanta	Member	16	19	24	60	35	9	2	8	20	39	24	11	267	324
	Non-mbr.	17	21	26	70	41	23	8	3	11	41	11	10	282	723
	Total	33	40	50	130	76	32	10	11	31	80	35	21	549	1047
Chicago	Member	2	13	21	12	35	10	20	18	12	10	41	10	204	770
	Non-mbr.	3	19	21	5	9	30	37	20	17	11	56	36	264	1737
	Total	5	32	42	17	44	40	57	38	29	21	97	46	468	2507
St. Louis	Member	31	47	58	35	24	48	33	37	31	32	39	24	439	392
	Non-mbr.	14	38	59	28	6	20	11	7	28	17	26	13	267	1182
	Total	45	85	117	63	30	68	44	44	59	49	65	37	706	1574

*Number not indicated
**Courtesy calls
#Including 281 calls not classified
##Including 12 courtesy calls not classified
2/Preliminary figures as of December 31, 1937, excluding Mutual Savings and Private banks.

Sheet #2

VISITS TO MEMBER AND NON-MEMBER BANKS
JANUARY - DECEMBER, 1937

Federal Reserve Bank		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total	Number of banks in operation 2/
Minneapolis	Member	32	8	156	101	137	157	41	8	59	23	36	11	769	469
	Non-mbr.	18	12	285	182	237	139	77	11	67	9	18	11	1,066	885
	Total	50	20	441	283	374	296	118	19	126	32	54	22	1,835	1354
Kansas City	Member	–	–	17	9	29	67	5	16	20	4	2	2	171	733
	Non-mbr.	–	–	24	10	17	29	2	9	15	1	2	3	112	1172
	Total	–	–	41	19	46	96	7	25	35	5	4	5	283	1905
Dallas	Member	62	52	34	29	42	59	12	3	3	3	42	11	352	547
	Non-mbr.	8	2	13	7	14	9	6	1	1	–	–	1	62	427
	Total	70	54	47	36	56	68	18	4	4	3	42	12	414	974
San Francisco	Member	2	79	64	30	87	61	34	29	67	28	42	30	553	292
	Non-mbr.	–	15	26	8	40	10	14	10	21	9	12	17	182	307
	Total	2	94	90	38	127	71	48	39	88	37	54	47	735	599
Grand Total	Member	305	505	728	694	702	693	433	378	556	447	603	455	6,499	6,342
	Non-mbr.	123	254	641	529	586	400	292	200	329	273	354	249	4,230	8,411
	Total	428	759	1369	1223	1288	1093	725	578	885	720	957	704	11,022 1/	14,753

1/ Including 281 calls not classified and 12 courtesy calls.
2/ Preliminary figures as of December 31, 1937, excluding Mutual Savings and Private banks.

R-176

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release January 29, 1938.

The Board of Governors of the Federal Reserve System today announced the appointment of Rufus C. Harris, President of Tulane University, New Orleans, Louisiana, as a class C director of the Federal Reserve Bank of Atlanta for the unexpired portion of the term ending December 31, 1940.

R-177

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 31, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOZLOG" - Treasury Bills to be dated February 2, 1938, and to mature May 4, 1938.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOZLID" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-178

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release January 31, 1938.

The Board of Governors of the Federal Reserve System today announced the appointment of E. W. Palmer, President, Kingsport Press, Kingsport, Tennessee, as a director of the Nashville Branch of the Federal Reserve Bank of Atlanta for the unexpired portion of the term ending December 31, 1940.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-179

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

February 2, 1938.

Dear Sir:

Referring to the Board's letter of July 26, 1935 (X-9271), with respect to the audit of the accounts of the Fiscal Agent of the Board of Governors by the auditor of the Federal Reserve Bank of Cleveland, there is transmitted herewith, for your information, a copy of the auditor's certificate in connection with his audit of the Board's accounts for the period August 1 to December 31, 1937, inclusive.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

I, F. V. Grayson, hereby certify:

(a) That a complete audit has been made of all entries in the accounts, "Board of Governors of the Federal Reserve System - Special Fund", "Board of Governors of the Federal Reserve System-Building Account", "Board of Governors of the Federal Reserve System-Fiscal Agent", and "Board of Governors of the Federal Reserve System-Fiscal Agent Building Account", for the period August 1 to December 31, 1937, inclusive, which completes an audit of the accounts for the full year of 1937.

(b) That all cash receipts received by the Board as shown by the "Collection Schedules" furnished the Fiscal Agent by the Secretary's office have been deposited by the Fiscal Agent and properly credited by the Federal Reserve Bank of Richmond in the account, "Board of Governors of the Federal Reserve System-Special Fund" except several schedules totaling $582.41 which were forwarded too late to be credited in December, but were credited in January, 1938.

(c) That all remittances made direct to the Richmond bank for the account of the Board of Governors of the Federal Reserve System by the Federal Reserve banks and others in compliance with the Board's instructions have been properly credited to the accounts, "Board of Governors of the Federal Reserve System-Special Fund" and "Board of Governors of the Federal Reserve System-Building Account."

(d) That each expenditure made by the Fiscal Agent was properly authorized by an administrative officer of the Board.

(e) That the items of receipts and expenditures shown by the books of the Fiscal Agent have been reconciled with the items shown in the statements of the Board of Governors of the Federal Reserve System's accounts prepared by the Federal Reserve Bank of Richmond.

(f) That the balances in each account as shown by the books of the Fiscal Agent have been reconciled with the balances standing to the credit of the Board of Governors of the Federal Reserve System on the books of the Federal Reserve Bank of Richmond as certified by the auditor of that bank.

(g) That all "Transfers of Funds" have been properly authorized by the Secretary of the Board or a member of the Board.

Respectfully submitted,

(Signed) F. V. Grayson

January 31, 1938 Auditor

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 4, 1938
R-180

Dear Sir:

Referring to the Board's letter R-164 of January 13, 1938, following is a statement of changes during January in the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Addition

Michigan	
Hudson	Hudson State Bank

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-181

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 5, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZLUM - Treasury Bills to be dated February 9, 1938, and to mature May 11, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-182

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release February 8, 1938

The Board of Governors of the Federal Reserve System today announced the appointment of Fred Nelsen, dairy farmer of Seattle, Washington, as a director of the Seattle branch of the Federal Reserve Bank of San Francisco for the unexpired portion of the term ending December 31, 1938.

R-183

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 9, 1938.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of January, 1938.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-183-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
January 3 to 31, 1938.

Federal Reserve Notes, Series 1934

	$10	$20	Total Sheets	Amount
Boston	105,000	20,000	125,000	$ 12,000.00
New York	175,000	40,000	215,000	20,640.00
Philadelphia	90,000	25,000	115,000	11,040.00
Cleveland	70,000	25,000	95,000	9,120.00
Richmond	45,000	25,000	70,000	6,720.00
Atlanta	45,000	25,000	70,000	6,720.00
Chicago	100,000	50,000	150,000	14,400.00
St. Louis	40,000	-	40,000	3,840.00
Minneapolis	30,000	25,000	55,000	5,280.00
Kansas City	35,000	-	35,000	3,360.00
Dallas	20,000	-	20,000	1,920.00
San Francisco	75,000	40,000	115,000	11,040.00
	830,000	275,000	1,105,000	$106,080.00

1,105,000 sheets @ $96.00 per M,.......$106,080.00

R-184

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release February 12, 1938.

The Board of Governors of the Federal Reserve System today announced the appointment of Robert B. Caldwell, member of the law firm of McCune, Caldwell & Downing, Kansas City, Missouri, as a class "C" director of the Federal Reserve Bank of Kansas City for the unexpired portion of the term ending December 31, 1940.

The Board also announced the appointment of Perry B. Gaines, farmer and stockraiser of Carrollton, Kentucky, as a director of the Louisville branch of the Federal Reserve Bank of St. Louis for the unexpired portion of the term ending December 31, 1940.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

February 12, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZLYE - Treasury Bills to be dated February 16, 1938, and to mature May 18, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 15, 1938.

Dear Sir:

The Board will publish a list of stocks registered on national securities exchanges, as of January 31, 1938, and three supplementary lists to be issued quarterly during the year 1938. These lists, to be published by the Board to facilitate compliance by banks with the provisions of Regulation U, will be similar in form to those published by the Board last year.

In accordance with the procedure established last year, the Board will furnish one copy of the list and of each supplementary list free of charge to each member and nonmember bank in the United States and to all bank examiners and supervisory authorities. The Board will continue sending additional copies to those in this group who requested them last year, and will continue sending copies free of charge to such national securities exchanges, government officials, members of Congress, press representatives and educational institutions as requested copies last year. The Board will also send copies free of charge to any additional persons in the foregoing groups who request them for their own use.

The lists will also be supplied to brokers or other persons who may request them at a charge of 25 cents for the annual number and the three supplements. On bulk orders calling for five or more copies, the rate will be 20 cents per copy, and on orders for fifty or more copies the rate will be 15 cents. The Board will send a notice of the 1938 publication and an order form directly to each person who subscribed for copies of the lists in 1937.

Please notify the Board as soon as possible of the number of copies of these lists which your bank will require for its own use, including the requirements of its examiners. Please refer to the Board any requests or orders which you may receive from other persons.

Very truly yours,

L P Bethea

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-187

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release. February 16, 1938.

The first meeting of the Federal Advisory Council for 1938 was held on February 14-15. Mr. Walter W. Smith was re-elected President and Mr. Howard A. Loeb was re-elected Vice President. These officers as ex-officio members and Messrs. Steele, Aldrich, Williams and Brown will comprise the Executive Committee. Mr. Walter Lichtenstein was re-appointed Secretary.

The Council is composed of the following members:

Federal Reserve District No. 1.	Thomas M. Steele, of New Haven, Conn.
No. 2.	Winthrop W. Aldrich, of New York, N. Y.
No. 3.	Howard A. Loeb, of Philadelphia, Pa.
No. 4.	Lewis B. Williams, of Cleveland, Ohio.
No. 5.	Robert M. Hanes, of Winston-Salem, N. C.
No. 6.	Edward Ball, of Jacksonville, Fla.
No. 7.	Edward E. Brown, of Chicago, Ill.
No. 8.	Walter W. Smith, of St. Louis, Mo.
No. 9.	John Crosby, of Minneapolis, Minn.
No. 10.	*W. T. Kemper, of Kansas City, Mo.
No. 11.	R. E. Harding, of Fort Worth, Texas.
No. 12.	Paul S. Dick, of Portland, Ore.

*Died January 19, 1938.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-188

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 16, 1938.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of January, 1938.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-District Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-188-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JANUARY, 1938

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses(1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	34,945	2,242	37,187	550.46	251.78	298.68
New York	104,695	---	104,695	1,549.74	1,013.07	536.67
Philadelphia	29,975	2,248	32,223	476.98	236.61	240.37
Cleveland	42,878	2,301	45,179	668.76	234.63	434.13
Richmond	42,891	2,219	45,110	667.74	184.14	483.60
Atlanta	53,862	2,187	56,049	829.66	276.07	553.59
Chicago	72,254	2,316	74,570	1,103.82	1,154.78	50.96(*)
St. Louis	63,911	2,181	66,092	978.32	191.28	787.04
Minneapolis	28,944	2,167	31,111	460.52	135.55	324.97
Kansas City	60,120	2,191	62,311	922.36	259.18	663.18
Dallas	56,534	2,206	58,740	869.50	267.85	601.65
San Francisco	70,484	2,274	72,758	1,077.00	404.71	672.29
Board of Governors	431,038	---	431,038	6,380.42	11,925.63	---
Total	1,092,531	24,532	1,117,063	$16,535.28	$16,535.28	$5,596.17
						50.96(a)
						$5,545.21

(1) Based on cost per word ($.01480246) for business handled during the month.

(2) Payments by banks are for personal services and payments by Board are for personal services ($1.472.80) and wire rental ($10,452.83). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

(*) Credit.

(a) Amount reimbursable to Chicago.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

February 18, 1938.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

SUBJECT: Holidays during March, 1938.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the following holidays will be observed by Federal Reserve banks and branches during the month of March:

March 1 (Tuesday) Mardi Gras Day	New Orleans Birmingham
March 2 (Wednesday) Texas Independence Day	Dallas El Paso Houston San Antonio
March 15 (Tuesday) Andrew Jackson's Birthday	Nashville Memphis
March 25 (Friday) Maryland Day	Baltimore

On the dates given the Federal Reserve bank offices affected will not participate in either the transit or the Federal Reserve note clearing through the Inter-district Settlement Fund. Please include transit clearing credits for such offices on the respective dates with your credits for the following business day. No debits covering shipments of Federal Reserve notes for the account of the Federal Reserve Bank of Dallas should be included in your note clearing of March 2.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-190

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZMAR - Treasury Bills to
be dated February 23, 1938,
and to mature May 25, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-191

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 19, 1938

Dear Sir:

As announced in the November 1937 issue of the Federal Reserve Bulletin, the National Appraisal Forum was held in Washington on November 19 and 20, 1937 under the auspices of the Joint Committee on Appraisal and Mortgage Analysis. There is inclosed a copy of the program which, according to the representatives of this Division who attended the Forum, was followed quite closely. In general the discussions in the meetings were related to the question of appraisal data sources rather than to procedure and technique in appraisal work.

Inasmuch as the Vice President in charge of the Bank Examination Department of one of the Reserve banks expressed an interest in obtaining a copy of the proceedings of the Forum, it has occurred to us that you might be interested in the publications distributed during the meetings. It was understood that the proceedings would be available for distribution shortly after January 1, but it now appears that it may be several weeks before they are available. However, through the courtesy of the Secretary of the Joint Committee on Appraisal and Mortgage Analysis sufficient copies of the bibliographies and catalogues distributed and the principal addresses delivered have been obtained to furnish each Reserve bank with a complete set. Thinking that this material might be helpful to the Bank Examination Department as sources of information regarding the literature and data in the real estate appraisal field, there are being forwarded to you under separate cover one copy each of the following:

1. Hasse, Adelaide R. Bibliography on Urban Real Estate Appraisal.
2. Du Bois, Ayers J. Catalog of Urban Real Estate Appraisal Data Sources.
3. Porter, L. G. A Survey of Rural Real Estate Appraisal Data Sources.
4. Olcott, Margaret T., and Hennefrund, Helen E. Valuation of Real Estate. Agricultural Economics Bibliography No. 60.
5. U. S. Department of Agriculture. Economic Reports and Services of the Bureau of Agricultural Economics, 1937.

6. A document marked "APPENDIX A" containing classifications of rural and urban appraisal data.

Addresses:

7. Honorable Daniel C. Roper, Secretary of Commerce - "Safeguarding Democracy through Human Shelter."
8. Horace Russell, General Counsel, Federal Home Loan Bank Board - "Appraisal Data and the Control of Mortgage Lending Policy."
9. Ernest M. Fisher, Director of Division of Economics and Statistics, Federal Housing Administration - "Appraisal Data, Their Compilation and Use."
10. Walter S. Schmidt, Past President, National Association of Real Estate Boards - "Appraisal Data and the Control of Realty Development."
11. Mordecai Ezekiel, Economic Advisor to the Secretary of Agriculture - "Appraisal Data Research and Future Stabilization of Values."

The Secretary of the Joint Committee, Mrs. Jennie Carter whose address is Room 619, Federal Housing Administration, Washington, has indicated that the Joint Committee would be interested in receiving any comments and suggestions with reference to the bibliographies and catalogues, especially those prepared by Miss Hasse and Mr. Du Bois.

Very truly yours,

Leo H Paulger

Leo H. Paulger,
Chief, Division of Examinations.

Inclosure.

TO VICE PRESIDENTS IN CHARGE OF EXAMINATIONS AT ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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,

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 letdown 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.

Philadelphia

Delaware

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:

State of Delaware	% change
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.)

Atlanta

Baton 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 vists 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

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 BANKS

JANUARY, 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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 21, 1938.

Dear Sir:

There are being sent you under separate cover 25 copies of an address made by Mr. Walter Wyatt, General Counsel of the Board of Governors, on February 17, 1938, before the Mid-Winter Conference of the Trust Division of the American Bankers Association on the subject: "Explanation of the Common Trust Fund Regulation".

Copies of the address are being forwarded to you for the purpose of making them available to the officers and directors of your bank and branches, if any, and to any member banks which may desire them. Additional copies will be furnished upon request.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Z-79

For release in afternoon newspapers
of Thursday, February 17, 1938.

"EXPLANATION OF THE COMMON TRUST FUND REGULATION"

Talk before the Mid-Winter Conference
of the
Trust Division of the American Bankers Association

by

Walter Wyatt, General Counsel
Board of Governors of the Federal Reserve System

February 17, 1938

EXPLANATION OF THE COMMON TRUST FUND REGULATION.

I appreciate the invitation of the Trust Division to discuss the new regulation of the Board of Governors of the Federal Reserve System relating to common trust funds. This undertaking is especially pleasant because of the long and close association we had with your Special Committee on Common Trust Funds in connection with the preparation of the regulation. As you know, the Committee consists of Mr. Carl W. Fenninger, Chairman, and Messrs. Oliver Wolcott, Rodman Ward, Charles B. Royce, and Walter Reid Wolf, all of whom are very helpful and pleasant gentlemen to work with. The same is true of Mr. Gilbert Stephenson, who has worked very closely with the Committee and with us. All of these gentlemen have put in a tremendous amount of time and work on the problem, and their cooperation and assistance have been invaluable.

The topic assigned to me was, "Explanation of the New Regulations"; and that sounded easy enough to one who had participated so intimately in the drafting of the regulation. However, before undertaking the preparation of this talk, I read the very able and comprehensive discussion of that subject contained in a leading article by Mr. George C. Barclay in the Trust Companies magazine for January, 1938; and I found that there was very little left for me to say on the subject that had been assigned to me.

I considered various imaginary legal remedies, including an action for damages for trespassing on my preserve, a suit for infringement of my copyright, and a complaint to the Federal Trade Commission that he had engaged in unfair competition; but I concluded instead to tender him my compliments for doing a better job than I could have done. I also decided that, instead of attempting to repeat or supplement his very fine explanation of the regulation, I would endeavor to give you something of its background and philosophy.

THE BOARD'S JURISDICTION

Before undertaking to discuss the regulation, it may be desirable to explain why the Board of Governors was called upon to issue any regulation upon this subject.

Section 11(k) of the Federal Reserve Act authorizes the Board to grant trust powers to national banks and to promulgate such regulations as it may deem necessary to enforce compliance with the provisions of the Act on that subject and the proper exercise of the powers granted.

Section 169 of the Revenue Act of 1936, which exempts common trust funds from taxation as corporations, defines the term "common trust fund" as a fund maintained by a bank -

(1) Exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as a trustee, executor, administrator or guardian; and

(2) In conformity with the rules and regulations prevailing from time to time of the Board of Governors of the Federal Reserve System pertaining to the collective

investment of trust funds by national banks.

While the Board's power to issue regulations on this subject relates only to national banks, all banks and trust companies, national and State, member and nonmember, which desire to operate common trust funds must comply with the regulation if they desire to obtain the tax exemption granted by the Revenue Act of 1936.

HISTORICAL BACKGROUND

The original Federal Reserve Act of December 23, 1913, authorized the Federal Reserve Board to grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds, under such rules and regulations as the Board might prescribe.

By subsequent amendments, these powers were broadened somewhat; certain regulatory provisions were inserted in the law; and it was made clear that the exercise of trust powers by national banks should not be deemed to be in contravention of State or local law if the exercise of such powers by State corporations which competed with national banks was authorized or permitted by State law.

The purpose of Congress in granting trust powers to national banks was to enable them to meet the competition of State banks exercising trust powers; and thus to preserve the national bank system. This was considered particularly important in connection with the enactment of the Federal Reserve Act, because the Act permitted

State banks and trust companies to become members of the Federal Reserve System and thereby to obtain not only the valuable privileges and benefits of membership but also the prestige of Federal supervision, which had previously been enjoyed solely by national banks.

In sustaining the constitutionality of this grant of trust powers to national banks, the Supreme Court of the United States ruled that it was merely an incident to the right of Congress to establish national banks and to preserve them from destructive competition. In this connection, the Court said:

> "* * * Of course as the general subject of regulating the character of business just referred to is peculiarly within state administrative control, state regulations for the conduct of such business, if not discriminatory or so unreasonable as to justify the conclusion that they necessarily would so operate, would be controlling upon banks chartered by Congress when they came in virtue of authority conferred upon them by Congress to exert such particular powers. And these considerations clearly were in the legislative mind when it enacted the statute in question. * * * the statute subjects the right to exert the particular functions which it confers on national banks to the administrative authority of the Reserve Board, giving besides to that Board power to adopt rules regulating the exercise of the functions conferred, <u>thus affording the means of coordinating the functions when permitted to be discharged by national banks with the reasonable and non-discriminating provisions of state law regulating their exercise as to state corporations, -- the whole to the end that harmony and the concordant exercise of the national and state power might result.</u>"

In accordance with this statement of the Supreme Court, the Board's regulations on this subject have always been formulated with a view of coordinating the exercise of trust powers by national banks with the provisions of State law regulating the exercise of such powers by State corporations.

COLLECTIVE INVESTMENTS FORBIDDEN

For many years the collective investment of trust funds was forbidden by the Board's regulation governing the exercise of trust powers by national banks. Thus the very first regulation issued by the Board on this subject, under date of February 15, 1915, provided that, "The funds, securities and investments held in each trust shall be kept separate and distinct from the general funds and securities of the bank, and separate and distinct from one another." This of course was simply a restatement of fundamental principles of State law applicable generally to fiduciaries and was retained in the regulation with no substantial change until 1936.

While minor exceptions were made by rulings in 1921 and 1928, first as to odd amounts of trust funds not exceeding fifty dollars and later as to cash balances too small to be invested separately to advantage, no ruling on this subject was published until March 1933 and it was not until 1936 that the Board modified the regulation to the extent of providing that, when the cash balances to the credit of certain trusts are too small to be invested separately to advantage, such small amounts may be invested collectively, provided: (1) That the bank owns no participation in the securities in which such collective investments are made and has no interest in them except as trustee or other fiduciary, and (2) that such collective investments are not prohibited by State law or by the instrument creating the trust.

THE MOVEMENT FOR COMMON TRUST FUNDS

The suggestion that this provision should be made much broader so that national banks could establish more elaborate common funds and use them on a much larger scale as a means of affording to small trusts the advantages of wider diversification and more efficient and economical administration, was made to the Board by the Special Committee on Common Trust Funds when the Board was considering a general revision of its regulation governing the exercise of trust powers by national banks early in January, 1936. After some discussion, it was agreed that the suggestion involved a major change in policy which would require lengthy investigation and a very thorough study and that it was not necessary to delay the revision of the regulation until this problem could be solved, especially in view of the fact that, even if the Board had granted such permission in its regulation, no practical use could be made of it until the revenue laws were amended so as to exempt such funds from taxation as corporations.

It was understood, however, that the promulgation of the 1936 regulation would not preclude further consideration of this subject by the Board at a later date and that your Special Committee would submit to the Board definite recommendations for a regulation which would provide for the proper establishment and operation of such funds and adequate safeguards against their abuse.

In the Revenue Act of 1936, enacted on June 22, 1936, provision was made for the exemption of common trust funds from taxation as corporations when they are maintained by banks in conformity with rules and regulations of the Reserve Board pertaining to the collective investment of trust funds by national banks. Congress apparently felt that the operation of common trust funds is such a departure from the usual rules of investing funds of individual trusts that it should not sanction the practice unless some Federal agency were charged with the responsibility of providing such regulatory safeguards as may be adequate to prevent abuses.

The tax problem having been solved, the Special Committee of the Trust Division appointed for this purpose undertook the formidable task of preparing for the Board's consideration a report containing a thorough discussion of this subject and definite recommendations as to safeguards which should be incorporated in any regulation authorizing the operation of common trust funds by national banks. The Committee did an enormous amount of work and conferred with the members of the Board and its staff before it submitted a formal report containing its definite recommendations under date of December 14, 1936.

After the Board and its staff had made a thorough study of the problem, a tentative draft of the regulation was sent to the American Bankers Association, the twelve Federal Reserve banks, all of the State supervisory authorities, and various other interested parties with a request that they give the Board the benefit of their comments and suggestions. A large volume of replies was received and it was found that opinions differed very widely not only as to the detailed provisions of the proposed regulation, but also as to the advisability of the Board issuing any regulation on this subject.

After the criticisms and suggestions had been analyzed and studied and additional conferences had been held with the members of the Special Committee of the Trust Division and other interested parties, a revised draft of the proposed regulation was prepared and the Board promulgated the new regulation to take effect on December 31, 1937.

THE FUNDAMENTAL PROBLEM

The most important question to be decided in considering the advisability of issuing a regulation on this subject was whether national banks should be permitted to depart from the long established principle of trusteeship which requires a trustee to keep the assets of each trust separate and distinct from the assets of other trusts.

This principle is not an arbitrary or technical rule but, like most principles of common law and equity jurisprudence, is based upon sound practical reasons. It is intended to insure that the affairs of each trust will be administered solely with a view of accomplishing the objects of that trust and to prevent the interests of a trust from being complicated through joint investments with the rights of strangers or required to share in the losses of other funds.

The Board could not permit national banks to depart from this principle except to the extent permitted by State law, because it cannot authorize them to violate the State law; but several States had enacted statutes expressly authorizing the collective investment of the funds of various different trusts and the practice probably was lawful in most, if not all, of the States when authorized by the terms of the instrument creating the trust.

In the final analysis, it appeared that the question whether the collective investment of the funds of various different trusts should be permitted was not a question of national policy to be decided by the Board of Governors of the Federal Reserve System but a question which should be left to the decision of the various States and to the persons creating trusts, especially in view of the fact that the Supreme Court had stated that, "the general subject of regulating the character of business just referred to is peculiarly within State administrative control."

Furthermore, if any question of national policy were involved, Congress had already given an indication of its view as to what such policy should be by incorporating in the Revenue Act of 1936 a special tax exemption to common trust funds maintained by banks solely for the purpose of investing funds held by them as trustees, executors, administrators or guardians.

In the light of this Congressional action and in accordance with the policy adopted by Congress in authorizing the exercise of trust powers by national banks when the exercise of such powers by competing State corporations is authorized or permitted by State law, the Board decided to permit national banks to invest the funds of various trusts held by them collectively in common trust funds when such investments are authorized or permitted by the laws of the State in which the national bank is located.

OTHER MAJOR PROBLEMS

Congress, however, had granted the tax exemption only on condition that such common trust funds be operated in accordance with regulations prescribed by the Board, thereby placing upon the Board a definite responsibility to prescribe regulations upon this subject containing adequate safeguards against abuse. The Board undertook to discharge this responsibility to such extent as seemed possible in view of the fact that common trust funds are a comparatively new development in this country, there are only a few in operation, and our experience with them is very limited.

In lieu of the ancient safeguard of requiring the funds of each trust to be kept separate and distinct from the funds of every other trust in order that one trust might not be compelled to share in losses which should be borne by another, the regulation contains provisions designed to guard against preferences and to provide for the pro rata distribution of all profits and losses on a fair and equitable basis. These are the provisions recommended by your Special Committee on Common Trust Funds which require periodic valuations of assets and permit the admission of participations to, or their withdrawal from, the common fund only on the valuation dates and on the basis of such valuations.

In order to guard against the possibility that the funds of a trust might be invested collectively in a common fund when it was not suitable to the peculiar needs of that particular trust, reliance was placed upon the trust investment committee of the bank and no funds are permitted to be invested in a participation in a common trust fund without the approval of such committee.

LIMITATIONS ON AMOUNT

Another major question was what limitation, if any, should be prescribed on the amount of the funds of any one trust which might be invested in a common trust fund. The replies to the Board's request for comments and suggestions on the tentative draft of the regulation disclosed a vast but not unexpected diversity of opinion on this question. They suggested amounts ranging all the way from $1,000 to $100,000, and a few suggested that there should be no limitation on the amount.

The principal argument in favor of the common trust fund was that it would afford to small trusts much better diversification of investments and more economical and efficient administration than can be afforded where the funds of each trust must be invested and administered separately. It had also been argued that the resulting efficiency and economy in administration would enable banks to afford expert trust services to many persons of small means who could not obtain such services if their funds had to be invested and administered separately. These arguments did not support the suggestion that there be no limitation on the amount of the funds of any one trust which might be invested in a common fund. Furthermore, there was a possibility that large participations by large trusts in the same common fund with small trusts might produce conflicts of interest.

In view of these considerations, it seemed advisable to prescribe some limit upon the amount of the funds of any one trust which could be invested in the common trust fund; and this limit was fixed at $25,000, which was the amount prescribed by the New York State law governing the operation of common trust funds. It had been represented that it was more difficult to invest small funds in New York than in other parts of the country and, since the New York legislature had apparently decided that $25,000 was a large enough amount of the funds of any one trust to be invested in a common trust fund in the State of New York, it seemed safe to assume that this amount was adequate for any part of the country.

Provisions were also inserted in the regulation to the effect that no one trust shall own a participation exceeding 10 per cent of the common trust fund; that the amount invested by any such fund in the stocks, bonds or other obligations of any one person, firm, or corporation (excepting obligations issued or guaranteed as to principal and interest by the United States) shall not exceed 10 per cent of the value of the entire fund; and that the fund shall not own more than 5 per cent of the outstanding shares of stock of any corporation.

INVESTMENT TRUST RESTRICTION

Much consideration was given to various restrictions designed to guard against the use of common trust funds for purposes other than those for which they are intended and especially as devices for the sale of participations in securities to the public; but it was found that most of the restrictions suggested for this purpose, such as a proposed restriction on the inclusion of funds of revocable trusts, would unduly limit or hamper the proper use of common trust funds.

It was finally decided to deal with this problem by inserting the following provision in the regulation:

> "The purpose of this section is to permit the use of Common Trust Funds, as defined in section 169 of the Revenue Act of 1936, for the investment of funds held for true fiduciary purposes; and the operation of such Common Trust Funds as investment trusts for other than strictly fiduciary purposes is hereby prohibited. No bank administering a Common Trust Fund shall issue any document evidencing a direct or indirect interest in such Common Trust Fund in any form which purports to be negotiable or assignable. The trust investment committee of a bank operating a Common Trust Fund shall not permit any funds of any trust to be invested in a Common Trust Fund if it has reason to believe that such trust was not created or is not being used for bona fide fiduciary purposes."

This is believed to be sufficient, especially in view of the fact that the Revenue Act defines a common trust fund as a fund maintained by a bank in conformity with the Board's regulations and exclusively for the collective investment and reinvestment of moneys contributed thereto by such bank in its capacity as a trustee, executor, administrator or guardian; and any use of a common fund for any other purpose or any wilful violation of the regulation would subject the entire fund to taxation as a corporation and probably subject the bank to a surcharge in the amount of the entire tax.

MISCELLANEOUS PROVISIONS

In order to facilitate admissions to and withdrawals from a common trust fund, some provision had to be made for the maintenance of adequate liquidity. Your Committee suggested that the Board might require that at least 60 per cent of the value of a common trust fund should be maintained in cash and readily marketable securities. However, it appeared likely that a trust institution would maintain a considerably higher percentage of liquidity than that required in the regulation, in order to avoid the possibility of the common trust fund becoming frozen by falling below the required percentage. There was also a possibility that, if too high a percentage of liquidity were required, the earnings of the common trust fund might be adversely affected.

Accordingly, the regulation lays down the principle that any bank administering a common trust fund must maintain in cash and readily marketable securities such part of the assets of the common trust fund as shall be deemed by the bank to be necessary to provide adequately for the needs of participating trusts and to prevent inequities between such trusts. In addition to this general principle, the regulation requires that not less than 40 per cent of the value of the assets in a common trust fund shall be maintained in cash and readily marketable securities.

It seems obvious that persons interested in trusts participating in a common trust fund should be advised of their rights and of the operations of the common fund. To this end, the regulation contains provisions requiring each common trust fund to be established and maintained under a written plan, that an annual audit be made of each such fund, and that copies of the plan and of the audit shall be furnished to interested parties upon request.

Likewise, since a fiduciary is permitted to charge fees for the administration of each individual trust, a bank operating a common trust fund is not permitted to charge any additional fee for the management of the common trust fund.

For equally obvious reasons, the regulation forbids the bank operating a common trust fund from investing any of its own funds in such common trust fund or having any selfish interest in the assets of such fund, and the operation of the fund is made subject to general prohibitions against self dealing contained in other sections of the regulation.

Although the provisions of the regulation applicable especially to common trust funds are contained in section 17 which is headed "Common Trust Funds", it must not be supposed that the provisions of this section are the only provisions of the regulation which must be taken into account in this connection. On the contrary, the investment of the funds of any trust in a common trust fund are subject to all the other applicable provisions of the regulation.

FUNDAMENTAL PRINCIPLES

It may be said by way of summary that the provisions of the regulation governing common trust funds are based upon the following fundamental conceptions:

1. That the advisability of banks operating common trust funds is a question of policy for the determination of the individual States in the discharge of their responsibility for the regulation of the administration of trusts;

2. That a common trust fund should not be used by banks as a device to engage in the sale of participations in securities to the public;

3. That where an individual trust is of such size that its funds may be invested separately to advantage, it is preferable that such funds be invested separately rather than in a common trust fund;

4. That preferences between individual trusts participating in a common trust fund must be avoided;

5. That a bank administering a common trust fund should not have any selfish interest in the assets held in such fund;

6. That persons having an interest in trusts participating in a common trust fund should be kept fully advised of the rights of the participating trusts and of the status of the participations of such trusts; and

7. That banks administering common trust funds should not receive management fees or other additional compensation for the administration of such funds.

SMALL FUNDS.

Some of you may have wondered why a provision similar to that contained in the 1936 regulation for the investment of cash balances too small to be invested separately to advantage was retained in the new regulation which also permits the collective investment of trust funds on a much larger scale. This was done because it appeared that many banks would not be interested in the establishment or operation of common trust funds on any large scale but that the limited authority to make collective investments of small cash balances representing the odds and ends of various different trusts might be helpful to them and they should not be deprived of this privilege or have its exercise complicated by the elaborate machinery necessary to safeguard the establishment and operation of larger common trust funds designed for more general use.

Some curiosity also seems to exist as to why the amount of any one trust which might be invested in this smaller and simpler type of common trust fund was limited to $1,200. Several banks had complained that the language of the old regulation, "cash balances * * * too small to be invested separately to advantage", was too vague and that it should be made more specific. It appeared that, if the limit were fixed at $1,200, this would enable the banks to invest odd amounts of each trust in such a fund until a particular trust had accumulated enough to withdraw its funds from the common fund, invest them separately in a $1,000 bond, and pay, in addition to the face amount thereof, any necessary premium, accrued interest, commissions and other incidental costs.

CONCLUSION.

It is hoped that the provisions of the regulation do not appear to be unduly long or complicated. However, it is feared that the actual operation of common trust funds will involve many complications and considerable expense as a result of the practical difficulties necessarily inherent in the problem of handling collectively the investment of the funds of many different trusts.

These complications are mentioned, not with a view of discouraging the establishment and operation of common trust funds, but with the view of suggesting that any trust institution contemplating the establishment of such a fund should first inform itself thoroughly not only of the legal requirements but also as to the practical and accounting problems involved in the operation of such a fund and should carefully weigh the advantages and disadvantages both to the trust institution and to the various trusts involved before reaching a decision as to whether or not it will establish such a fund. In this connection it would be advisable to consult the operating officers of some of the trust institutions who have had experience in the operation of such funds and who are familiar with the practical problems involved.

In concluding these remarks, I should like to make two statements of a cautionary nature.

The first is with reference to tax exemptions. Under the Revenue Act of 1936, common trust funds are entitled to tax exemption only if they are operated in conformity with the Board's rules and regulations. Therefore, a bank operating a common trust fund should be particularly careful to conform to the requirements of the regulation in order that the tax exemption may not be forfeited and the trust institution possibly surcharged for the resulting costs to the participating trusts.

Lastly but most important of all, those interested in the development of the common trust funds should do everything in their power to see that each such fund is properly and prudently operated. I know of nobody better situated or better equipped to undertake the task of safeguarding this development than the Trust Division of the American Bankers Association; and I am confident that the Board of Governors and other supervisory authorities can rely upon their cooperation and assistance to this end.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 23, 1938.

Dear Sir:

There are being sent you under separate cover twenty-five copies of a talk made by Mr. Walter Wyatt, General Counsel of the Board of Governors, on February 21, 1938, before the Banking Forum of the St. Louis Chapter of the American Institute of Banking on the subject: "The Regulations of the Board of Governors of the Federal Reserve System". This talk is a current revision of the address made by Mr. Wyatt on May 20, 1936, before the Annual Convention of the Texas Bankers Association at Houston on "The Board of Governors of the Federal Reserve System" (X-9587).

Copies of the February 21 address are being forwarded to you for the purpose of making them available to the officers and directors of your bank and branches, if any, and to any member banks which may desire them. Additional copies will be furnished upon request.

It is the present practice to send to each Federal reserve bank twenty-five copies of speeches made by members of the Board and its staff as a matter of routine. Since the number of copies forwarded in the first instance is entirely arbitrary, it will be appreciated if you will advise whether your bank desires to receive a larger or smaller number of such copies in future routine shipments.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Z-82

"THE REGULATIONS OF
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM"

Talk before the Banking Forum
of the
St. Louis Chapter
of the
American Institute of Banking

by

Walter Wyatt, General Counsel
Board of Governors of the Federal Reserve System

St. Louis, Missouri, February 21, 1938.

Mr. Chairman, Ladies and Gentlemen:

I have been asked to talk to you about the regulations of the Board of Governors of the Federal Reserve System; but before discussing the regulations I would like to say a few things about the Federal Reserve System.

The Federal Reserve System consists of three principal elements -- the member banks, the Federal Reserve banks, and the Board in Washington.

The member banks are as much a part of the Federal Reserve System as the Federal Reserve banks or the Board in Washington. It is principally through the member banks that the Federal Reserve banks serve the public.

The System is fundamentally a cooperative arrangement by which member banks join together and pool a portion of their resources for mutual assistance. The member banks in each district make their contributions by depositing their reserves in their own Federal Reserve bank; and, when any member bank needs assistance, it goes to its own Federal Reserve bank in its own district.

The Federal Reserve banks are neither Government institutions nor private institutions. They are privately owned but they are devoted entirely to the public service. They are not operated for profit and the dividends which they pay to their stockholders are limited by law to 6 per cent per annum. The remainder of their net earnings is carried to a surplus fund which would be paid into the Treasury of the Federal Government if the Federal Reserve banks were liquidated.

The Federal Reserve System is not a central banking system but a regional banking system. This country is too vast and conditions in different parts of the country vary too much to make it feasible or desirable to have a single central bank for the entire country. Instead, therefore, we have twelve Federal Reserve banks, each serving a definite geographical area and managed by directors, officers and employees who live in and are familiar with the conditions in its district. However, each Federal Reserve bank is authorized, and may be required, to go to the assistance of any other Federal Reserve bank which needs assistance in handling any situation arising in its district.

With respect to matters affecting the country as a whole the activities of the twelve Federal Reserve banks are coordinated by the Board of Governors in Washington. The Board is given the broad power to exercise general supervision over the twelve Federal Reserve banks and certain specific powers designed to enable the Board to see that they pursue a banking policy which is uniform and harmonious for the country as a whole.

The fundamental characteristics of the Federal Reserve System were stated by Honorable Carter Glass in the official report which he made to the House of Representatives on the bill which became the original Federal Reserve Act. He said:

" * * * The only factor of centralization which has been provided in the committee's plan is found in the Federal reserve board, which is to be a strictly Government organization created for the purpose of inspecting existing banking institutions and of regulating relationships between Federal reserve banks and between them and the Government itself. Careful study of the elements of the problem has convinced the committee that every element of advantage found to exist in cooperative or central banks abroad can be realized by the degree of cooperation which will be secured through the reserve-bank plan recommended, while many dangers and possibilities of undue control of the resources of one section by another will be avoided. Local control of banking, local application of resources to necessities, combined with Federal supervision, and limited by Federal authority to compel the joint application of bank resources to the relief of dangerous or stringent conditions in any locality are the characteristic features of the plan as now put forward. * * * It is proposed that the Government shall retain a sufficient power over the reserve banks to enable it to exercise a directing authority when necessary to do so, but that it shall in no way attempt to carry on through its own mechanism the routine operations of banking which require detailed knowledge of local and individual credit and which determine the actual use of the funds of the community in any given instance. In other words, the reserve-bank plan retains to the Government power over the exercise of the broader banking functions, while it leaves to individuals and privately owned institutions the actual direction of routine."

In this form of organization we have something which is characteristically American -- local management of local affairs, national management of national affairs, and the strength which lies in unity, coordination and cooperation.

The Board is an independent establishment of the Federal Government carefully safeguarded from political influence and pressure.

It consists of seven members appointed by the President and confirmed by the Senate for terms of fourteen years each, so arranged that not more than one term will expire in any two years. Furthermore, a member who has served a full term of fourteen years is ineligible for reappointment, so that his actions while in office will not be influenced by the desire to be reappointed.

In selecting the members of the Board, not more than one of whom may be selected from any one Federal Reserve district, the President is required to have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographical divisions of the country. Before taking office, the members of the Board are required to divest themselves of all interest in any bank, banking institution or trust company; and the members of the Board are made ineligible during the time they are in office and for two years thereafter to hold any office, position or employment in any member bank, except that this restriction does not apply to a member who has served the full term for which he was appointed.

Another feature of the original Federal Reserve Act, which has been preserved and which affords the Board very important protection against political pressure is the fact that it is not dependent upon Congress for appropriations but defrays all of its expenses out of assessments levied on the Federal Reserve banks.

In view of the vast injury which could be done if the official actions of the Board of Governors and the Federal Reserve banks were influenced by politics or favoritism, it is vitally important that this independence be preserved. It is not only important to the public interest, but it is of especial importance to every member bank. It is vitally important to keep banking out of politics and politics out of banking.

The most important and most widely discussed powers of the Board relate to national credit policies. These include the power to approve or disapprove discount rates of the Federal Reserve banks, to change reserve requirements of member banks, to prescribe margin requirements for loans by brokers and dealers in securities and by banks for the purpose of purchasing or carrying securities, and to regulate the rates of interest which may be paid by member banks on time and savings deposits.

In addition, the Federal Open Market Committee, which consists of the seven members of the Board and five representatives of the Federal Reserve banks, is given control over the open market operations of the Federal Reserve banks - that is over the amount of credit which they can place in or remove from the money market through the purchase or sale of Government bonds, bankers' acceptances or other obligations of the kinds which Federal Reserve banks are authorized to purchase and sell in the open market.

The most numerous powers of the Board relate to the operations of the Federal Reserve banks and are a part of an intricate system of checks and balances designed to leave the management of local affairs and the granting of individual credits to the directors and officers of the Federal Reserve banks but at the same time to give the Board in Washington sufficient powers of general supervision and regulation to enable the Board to coordinate the activities of the twelve Federal Reserve banks and see that they carry out the purposes of the Federal Reserve Act and pursue policies which are harmonious for the country as a whole.

However, I promised to talk to you about the Board's regulations which member banks have been receiving in increasing numbers in recent years and a few of which affect the daily operations of member banks.

There have been complaints about the number of new regulations issued by the Board since the passage of the Banking Act of 1935, and I sympathize with the member banks; because they have been through very trying times since 1929. After all the troubles which they experienced in the unhappy years leading up to the banking holiday in March, 1933, and the very difficult months of reorganization and rehabilitation following that period, they had to contend with many perplexing new provisions of law imposed upon them by the Banking Act of 1933. That was a reform measure resulting from public resentment over certain practices which were brought to light by the large number of bank failures in the years immediately preceding.

The Banking Act of 1933 made it necessary for the Board to issue a number of new regulations; and, before the banks finished familiarizing themselves with these new laws and regulations and adjusting themselves to them, we had the Banking Act of 1935 and a new set of regulations issued thereunder. The banks probably feel that they are being legislated and regulated to death; but an analysis of the situation will disclose that it is not as bad as it seems.

Since the passage of the Banking Act of 1935, the Board has issued eleven regulations under that Act and two under the Securities and Exchange Act of 1934, making thirteen in all. Of these thirteen only three are new or additional regulations. Ten of them are merely revisions of pre-existing regulations, and most of the changes made are in the direction of greater liberality, simplicity and clarity.

In view of the fact that the Board designates its various regulations by the letters of the alphabet and has now reached the letter U, you may wonder what the Board will do when it has exhausted the alphabet. I personally hope that the Board will never exhaust the alphabet, but that it will be able in time to work out ways and means of simplifying its regulations and greatly diminishing their number.

The Board has outstanding at the present time twenty-one different regulations. This sounds like a tremendous volume of regulations; but it is not really as formidable as it sounds. Each regulation is limited to a particular subject and only a few affect the operations of member banks to any material extent. A quick review of the list of regulations will illustrate my point. With your indulgence, I shall take them up in alphabetical order and run through the entire list from A to U.

Regulation A relates to discounts and advances by Federal Reserve banks to member banks; but it does not affect member banks unless they are discounting with, or obtaining advances from, the Federal Reserve banks. It was revised effective October 1, 1937, in a form which makes the credit facilities of the Federal Reserve banks available to member banks on a much more liberal and practical basis than ever before.

Regulation B relates to the purchase of bills of exchange, trade acceptances and bankers' acceptances by Federal Reserve banks on the open market. It only affects indirectly those member banks who issue bankers' acceptance credits or have occasion to sell bills of exchange, trade acceptances or bankers' acceptances on the open market.

Regulation C relates to the granting of bankers' acceptance credits by member banks, but affects only the relatively small number of member banks which issue such credits.

Regulation D relates to the reserves of member banks. It affects all member banks; but, it is something to which they have become adjusted over a long period of time and is of little practical importance at a time like the present when most member banks have reserves greatly in excess of the legal requirements.

Regulation E relates to the purchase of State and municipal warrants by Federal Reserve banks on the open market and has practically no effect on member banks.

Regulation F relates to trust powers of national banks. It was revised, effective June 1, 1936, and amended again effective December 31, 1937 so as to provide for the establishment and operation of common trust funds. It states the procedure under which national banks obtain and surrender permits to exercise trust powers and a few general principles regarding the management of the trust department, the investment of trust funds, and similar matters.

Regulation G relates to the rediscount by Federal Reserve banks of notes secured by veterans' bonus certificates and is practically a dead letter today.

Regulation H relates to the membership of State banks in the Federal Reserve System, but has no effect whatever upon national banks. Even as to State banks, it relates only to such matters as the procedure for obtaining or relinquishing membership in the System, the conditions upon which such banks will be admitted to the System, the circumstances under which they will be permitted to establish or maintain branches, and the publication of reports of member banks and their affiliates.

Regulation I relates to the increase or decrease of holdings by member banks of capital stock of Federal Reserve banks. It affects member banks only at the time of their organization or admission to the Federal Reserve System and at times when they increase or decrease their capital or surplus, consolidate with other banks, become insolvent, go into voluntary liquidation, or withdraw from membership in the Federal Reserve System.

Regulation J relates to the clearance and collection of checks by Federal Reserve banks. It affects all member banks, but only with respect to the terms and conditions upon which Federal Reserve banks receive checks from them for collection and make the credits therefor available to them.

Regulation K relates to the organization and regulation of foreign banking corporations, and is of no interest to member banks except the few owning stock in such foreign banking corporations or contemplating the organization of such corporations.

Regulation L relates to interlocking bank directorates under the Clayton Act and affects only those member banks which have directors, officers or employees serving also as directors, officers or employees of other banks.

Regulation M consists of only one paragraph and relates only to foreign branches.

Regulation N pertains only to the relations of Federal Reserve banks with foreign banks and bankers, and has no effect upon member banks.

Regulation O relates to loans by member banks to their executive officers, but was issued to relieve the member banks from the more onerous provisions of the pre-existing criminal statute on this subject.

Regulation P relates to holding company affiliates of member banks and affects only indirectly those member banks which are controlled by bank holding companies.

Regulation Q relates to the payment of interest on deposits by member banks and affects all member banks.

Regulation R relates only to those member banks who desire to have security dealers or underwriters serving as their officers, directors or employees.

Regulation S relates to loans by Federal Reserve banks to furnish working capital to established industries and affects only those member banks which participate in such loans or which make such loans themselves and obtain commitments from the Federal Reserve banks to take them off of their hands.

Regulation T relates to the extension and maintenance of credit by brokers, dealers and members of national securities exchanges, and does not affect any member banks except a very few which are members of national securities exchanges. Incidentally, it prescribes the procedure under which nonmember banks may qualify to make advances to brokers and dealers in securities.

Regulation U relates to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange but this regulation has little effect on the operations of any member banks except those located in the large financial centers.

Out of twenty-one regulations which the Board has in effect at the present time, therefore, I think it is fair to state that five of them have no effect whatever upon member banks, eleven of them affect the member banks only occasionally or affect only a few of them, and only five of them materially affect the ordinary operations of all member banks.

Of these five, Regulation D, relating to reserves of member banks and Regulation J, relating to the clearance and collection of checks by Federal Reserve banks, are so well-established and so well known to all member banks that they require no further discussion at this time.

That leaves Regulation O, relating to loans to executive officers of member banks, Regulation Q, relating to the payment of interest on deposits, and Regulation U, relating to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange. I shall discuss these three regulations a little further.

Regulation O, relating to loans by member banks to their executive officers may not have gone as far in the direction of liberality as some member banks desired; but it is much more liberal and practical than what preceded it.

When the Banking Act of 1933 was under consideration by Congress there was much public resentment over the fact that a number of banks which had failed in the years immediately preceding had sustained large losses on loans made to their own executive officers. This resulted in a provision in the Banking Act of 1933 making it a criminal offense, punishable by fine or imprisonment, for any executive officer of a member bank to borrow from or otherwise become indebted to such bank or for any member bank to make any loan or extend credit in any other manner to any of its own executive officers.

The term "executive officer" was not defined, and the Board received a large number of requests for rulings as to what officers of member banks should be considered "executive officers" within the prohibitions of the Act. Unfortunately, the Board had to decline to express any opinion on these questions, because the enforcement of Federal criminal statutes is entirely within the jurisdiction of the Department of Justice and any opinion expressed by the Board would not have been binding upon that Department.

If the Board had expressed the opinion that certain officers of member banks were not "executive officers" within the meaning of the statute, they might have obtained loans from their banks in good faith and in reliance upon the Board's opinion. If the Department of Justice had subsequently adopted a different interpretation of the law such officers might have been prosecuted for obtaining loans which the Board had told them were entirely lawful. In the circumstances, the only thing the Board could do was to decline to express opinions on such questions.

It was contrary to the established policy of the Department of Justice to issue rulings interpreting penal statutes; and there was no place for the member banks to go to obtain authoritative rulings on such questions.

The situation was extremely unsatisfactory; and the Board and the Comptroller of the Currency jointly sought relief for the member banks in the Banking Act of 1935. As a result of their efforts, the section was rewritten by the Banking Act of 1935 so as to repeal the criminal penalties, thus withdrawing the subject entirely from the jurisdiction of the Department of Justice. It also authorized the Board to define the term "executive officer", to determine what should be deemed a borrowing, indebtedness, loan, or extension of credit and to prescribe rules and regulations to effectuate the purposes of the section and prevent evasions thereof. In addition, certain exceptions were made to the prohibitions of the section, one of which permits any member bank with the approval of a majority of its own board of directors, to extend credit to any executive officer thereof in an amount not exceeding $2,500.

Regulation O issued by the Board pursuant to the provisions of this section adds nothing whatever to the restrictions contained in the law itself, but consists principally of a definition of the term "executive officer" and answers to other questions on which member banks had been clamoring for interpretative rulings. Instead of creating additional burdens for the member banks, therefore, this regulation should be of great assistance to them.

There was one respect in which the Board could not see its way clear, in defining the term "executive officer", to make a concession which many banks desired but which others felt could not properly be made -- namely, the proposal to exempt honorary or inactive officers. After hearing all of the arguments on both sides, the Board adopted the view that a person who accepts the title of an executive officer and holds himself out to the public as an executive officer should be required to comply with the rules governing executive officers. I know that there are some who differ with this view; but I have never heard any one who could successfully answer the moral arguments upon which it is based.

Regulation Q relates to the payment of interest on deposits by member banks and also grows out of provisions added to the Federal Reserve Act by the Banking Act of 1933, which were later amended and modified by the Banking Act of 1935.

The underlying purposes which Congress had in mind when it enacted those provisions have never been authoritatively stated; but it is my personal opinion that they were two-fold: First, to put an end to cut-throat competition for deposits, which frequently led the banks to pay higher rates of interest than they could afford to pay and thus tended to weaken their financial condition; and, second, to compensate the banks somewhat for the assessments, which under another provision of the Banking Act of 1933, they were required to pay for the insurance of their deposits. The section was adopted for the benefit and protection of the banks; and it is in the interest of every bank to cooperate with the Board in its efforts to obtain compliance with the spirit as well as the letter of this law and to eliminate every form of unfair competition for bank deposits. The sole purpose of Regulation Q is to accomplish this result.

Regulation U, which was issued pursuant to the Securities Exchange Act of 1934, governs loans by banks for the purpose of purchasing or carrying stocks registered on national securities exchanges. Unlike the Board's other regulations, it applies to nonmember banks as well as member banks.

The Board could have spared itself a great amount of trouble and expense by leaving this subject to regulation by the Federal Trade Commission or the Securities and Exchange Commission, as proposed in the original bill. But the Board at that time felt that the banks were already subject to regulation by too many different supervisory authorities and that they would fare better if this additional duty were performed by the Board instead of some other agency less familiar with practical banking problems. Congress was persuaded, therefore, to impose this duty upon the Board instead of the Securities and Exchange Commission, even though, in order to accomplish this result, the Board also had to accept the burden of regulating the extension of credit by brokers, dealers and members of national securities exchanges, which it was very reluctant to do.

In the preparation of Regulation U every effort was made to make it as short and simple as possible and to interfere no more with the ordinary operations of the banks than is absolutely necessary to accomplish the purpose of the regulation, which is to prevent the excessive use of bank credit for the purchasing or carrying of securities.

The regulation applies to no loans except those which are secured by stocks and are made for the purpose of purchasing or carrying stocks registered on a national securities exchange.

If a loan is not secured directly or indirectly by stocks, the regulation has no application to it and the bank need not inquire into the purpose of the loan. It is recognized that this leaves the regulation open to the possibility of some evasion; but it was believed better to accept this risk than to affect every loan a bank makes in order to regulate a relatively small portion of them. It is believed that most of the bankers will endeavor in good faith to comply with the regulation and will not make loans for the purpose of purchasing or carrying stocks without requiring the customers to pledge such stocks as collateral.

Even if a loan is secured by stocks the regulation does not apply to it if the loan is made for a commercial, agricultural or industrial purpose or for any other purpose except the purpose of purchasing or carrying listed stocks. If the bank desires to do so for its own protection, it can obtain a written statement from the borrower or from one of the bank's own officers that the loan is not for the purpose of purchasing or carrying stocks. If such a statement is obtained in good faith the loan is completely exempted from the regulation.

Even if a loan is secured by stocks and the bank is unwilling to inquire into its purpose, the regulation will not be violated if the amount of the total loans to that customer does not exceed sixty per cent of the current market value of the stocks pledged as collateral.

The net practical result is that a bank need not think about the regulation except with respect to loans that are secured directly or indirectly by stocks when the amount of the borrower's indebtedness exceeds sixty per cent of the current market value of the stocks securing such indebtedness. Even with respect to this limited class of loans, the banker can forget about the regulation if he obtains in good faith a written statement from the customer or from one of the bank's own officers that the loan is not for the purpose of purchasing or carrying stocks.

I think it is fair to say, therefore, that the Board succeeded in promulgating a regulation which does not interfere with the ordinary operations of the banks any more than is absolutely necessary to accomplish the purposes of the regulation.

Although it does not directly affect the ordinary operations of member banks at a time like the present when most of them have substantial amounts of excess reserves and very few, if any, are borrowing from the Federal Reserve banks, you may also be interested in some discussion of the new Regulation A, which became effective on October 1, 1937, and which relates to discounts and advances by Federal Reserve banks for member banks. This new regulation superseded the 1930 edition of Regulation A and incorporated various legislative changes on this subject which had been made since the beginning of the depression.

The first part of the regulation deals with the requirement as to eligibility for discount of notes, drafts, and bills arising out of commercial, agricultural, and industrial transactions and contains relatively few substantial changes from the old regulation. The legal limitation of maturities to 90 days, except in the case of agricultural paper where it is 9 months, remains unchanged.

An important change, however, occurs with regard to paper the proceeds of which are advanced or loaned to some other borrower. The Board had previously held that paper the proceeds of which were advanced or loaned to some other borrower, such as paper made by finance companies, was ineligible for discount at Federal Reserve banks, with the exception of paper of cooperative marketing associations and of certain factors which had been specifically made eligible by the law. In the new regulation the requirement that the proceeds of eligible paper must be used "in the first instance" for the purpose of producing, purchasing, carrying, or marketing goods has been eliminated, and it is likewise no longer required that the proceeds of eligible paper must not be advanced or loaned to some other borrower. Under the new regulation, therefore, notes, drafts, or bills the proceeds of which have been advanced or loaned to some other borrower for a commercial, agricultural, or industrial purpose are eligible for discount, provided they comply with the usual requirements as to maturity. The principle underlying this interpretation by the Board is that paper whose proceeds are used for an eligible purpose in the hands of a second borrower is not rendered ineligible by the intervening transaction. This makes eligible for discount a large amount of paper of commission merchants and finance companies, including paper drawn to finance installment sales of a commercial character.

Another change in the sections dealing with eligible paper is based on the National Housing Act of June 27, 1934, which makes eligible for rediscount notes with short maturities representing loans made to finance the construction of residential or farm buildings, if accompanied by a valid and binding agreement to advance the full amount of the loan upon the completion of the building, entered into by persons acceptable to the discounting Federal Reserve banks. This provision of the law was intended to encourage loans by banks for construction purposes with a view to promoting recovery of the building industry.

A more fundamental change in the regulation appears in section 2, which incorporates for the first time provisions regarding advances to member banks under section 10(b) of the Federal Reserve Act, which was added to the law by the so-called Glass-Steagall Act of February 27, 1932, for the purpose originally of making it possible in exceptional and exigent circumstances for member banks to receive credit accommodation from Federal Reserve banks on their promissory notes collateraled by any security acceptable to the Federal Reserve bank. This action was taken to relieve a situation existing during the deflationary period when many banks with sound assets in their possession were obliged to close their doors because they did not have paper eligible for rediscount at the Federal Reserve bank. The inability of Federal Reserve banks to discount sound paper unless it complied with the eligibility requirements of the law was one of the conditions that aggravated the deflationary movement.

Section 10(b) was first enacted as a temporary emergency measure to overcome this situation and its duration was originally limited to March 3, 1933, but was later extended to March 3, 1935. It was originally restricted to banks with a capital not exceeding $5,000,000, and each loan had to be authorized by the affirmative vote of not less than five members of the Federal Reserve Board. These latter restrictions were eliminated by the Emergency Banking Act of March 9, 1933, but there still remained provisions of the original law to the effect that this section could be used only in exceptional and exigent circumstances and only by member banks having no further eligible and acceptable assets available to enable them to obtain adequate credit accommodations under the regular discount provisions of the law. In view of the temporary nature of the legislation, the provisions of this section were not covered by a formal amendment to the regulation but only by circular letters sent by the Board to all Federal Reserve banks outlining the procedure for making such loans.

The Banking Act of 1935 made this section permanent and further liberalized it by removing the requirements that in order for a bank to borrow under this section there must be exceptional and exigent circumstances and that the bank must be unable to obtain adequate credit accommodations under other provisions of the Federal Reserve Act. The minimum rate of interest on these advances was reduced from 1 per cent to 1/2 per cent above the highest discount rate. A four months' limit on the maturity of advances under this section was provided.

It is for advances under the authority of section 10(b) of the Federal Reserve Act that provision is made in section 2 of the new Regulation A. This regulation authorizes the use as collateral for advances, in addition to Government securities and eligible paper which could serve as a basis for advances under the old law, the various classes of paper that underlie the financing of the country's principal economic activities. In addition to certain specified classes of assets, the regulation provides further that, when in the judgment of a Federal Reserve bank circumstances make it advisable to do so, it may accept as security for an advance under this section any assets satisfactory to the Federal Reserve bank. The regulation, therefore, bars no paper from use as collateral for advances but merely indicates a class of preferred paper which covers all the principal fields of financing.

In establishing rules, which in effect make all sound assets of member banks a potential basis of advances by the Federal Reserve banks, the Board had in mind the fact recognized by Congress in the Banking Act of 1935, that under our banking system member banks carry time deposits as well as demand deposits, and since these banks are custodians of the funds representing the savings or capital accumulation of the people, they properly invest a part of their funds in long-time paper, and consequently provision should be made for using them in case of need as a basis of advances from the Federal Reserve banks.

The principles underlying the new regulation are the same as those underlying recent modifications of the Federal Reserve Act.

Experience has demonstrated that the solvency of banks is better safeguarded by careful regard to the quality of the paper that they acquire than by strict observance of the form that this paper takes. Strict eligibility requirements in the past did not save the banking system from collapse. Greater emphasis on soundness and less emphasis on form is, therefore, a sound banking principle.

The Board was also guided in its determination of eligibility requirements by the recognition of the fact that at a time of a deflationary trend it is important for the Federal Reserve System to lend with the greatest freedom consistent with safety. At such times technical limitations on the character of eligible paper endanger rather than protect the safety of the banking structure. By describing in the regulation the character of paper that will have first claim for advances the Board hopes to encourage better and safer banking practices. At the same time the Board believes that the assurance of support in case of need given to member banks with sound assets will encourage these banks to give their communities the financial services that they require.

While I am on the subject of regulations, I would like to tell you something about the procedure followed in preparing them.

A tentative draft of each proposed regulation is sent to all the Federal Reserve banks with a request that they give the Board the benefit of their criticisms and suggestions. In addition to studies and discussions by their officers and counsel, the Federal Reserve banks frequently consult some of the member banks about these tentative drafts. The criticisms and suggestions resulting from these studies, discussions and consultations are transmitted to the Board in writing.

Copies of the tentative drafts of all regulations affecting member banks are also sent to the American Bankers Association for study by a committee representing the Association. Special committees are appointed by the President of the Association for this purpose and the members of each special committee are practical operating officers of member banks carefully selected on the basis of outstanding ability and special familiarity with the particular subject dealt with in the regulation. If there is anything impractical or undesirable in the proposed regulation these men are sure to find it and bring it to light.

And, believe me, these committees really work. After each member has made a thorough study of the tentative draft sent to him for that purpose, they meet, exchange views on the subject and formulate their tentative views as a committee. After it has finished its own deliberations, the committee has a joint conference with the members of the Board and its staff, at which there is a full and free round table discussion of every point about which any question has been raised.

Following this joint conference the committee prepares and files its written report and copies are furnished to every member of the Board and every division of its staff. Furthermore, in our final report to the Board, the staff has to tell the Board what it thinks should be done about every definite recommendation made by the American Bankers Association committee.

After all of this study, the regulations are taken up by the Board for final action; and there is a further discussion of the regulation between the members of the Board and the members of the staff and frequently further changes are made in the regulation before it is finally adopted.

While it is impossible to reconcile all conflicting viewpoints or to adopt all suggestions made from these various different sources, nevertheless it is believed that this thorough discussion and the attending criticisms and suggestions from so many different sources tend to produce regulations which are as reasonable and workable as it is possible to produce by any method. Certainly it provides elaborate safeguards against the danger of the issuance of regulations which are undesirable or unworkable from a practical banking standpoint.

In conclusion, please permit me to remind you that the Federal Reserve System is not something separate and apart from the member banks. They are as much a part of it as the Federal Reserve banks or the Board in Washington; and it is very much in their interest and in the public interest for them to cooperate with the Board in every possible way and to join with the Board and the Federal Reserve banks in their efforts to improve our banking system, in order that it may render to this great country of ours the greatest possible public service.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers, Saturday, February 26, 1938.

The following summary of general business and financial conditions in the United States, based upon statistics for January and the first three weeks of February, will appear in the March issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

The decline in business activity, which had been rapid during the last quarter of 1937, continued in January but at a slower rate.

Production

Volume of industrial production, as measured by the Board's seasonally adjusted index, was at 81 percent of the 1923-1925 average in January as compared with 84 percent in December. Output of durable goods continued to decline, reflecting chiefly considerable decreases in production of automobiles and plate glass and a further decline in output of lumber. Steel ingot production increased somewhat, the output for January averaging 30 percent of capacity. In the first three weeks of February, activity at steel mills showed little change at about 31 percent of capacity, while production of automobiles was at a lower rate than in January.

In the textile industries, activity at silk and rayon mills in January showed a sharp rise from the low levels reached in December. At cotton mills, however, there was less than the usual seasonal increase and output of woolen products continued in small volume. Shoe production, which also had been at a low rate in December, increased considerably in January, and activity at meat-packing establishments rose somewhat further. Output of tobacco products remained at a high level, while sugar meltings declined. At mines, bituminous coal production was considerably smaller than in December, and there was also a reduction in output of nonferrous metals. Petroleum production continued at the high level of other recent months.

Value of construction contracts awarded in January was smaller than in December and somewhat below the level maintained during the last four months of 1937, according to figures of the F. W. Dodge Corporation. Contracts awarded for public projects increased somewhat further, while awards for private work continued to decline, reflecting a further decrease in residential building and a sharp reduction in awards for factory construction. In the first half of February awards for private projects were at about the same rate as in January, while those for public work showed a sharp decline.

Employment

Factory employment and payrolls declined substantially further between the middle of December and the middle of January. In the durable goods industries, decreases in employment were general and were particularly large at factories producing automobiles, steel, and machinery. Employment in nondurable goods industries showed a somewhat smaller decline than in previous months. There was some increase in the number employed at shoe factories and little change in the food industries as a group, but in other nondurable goods industries employment continued to decrease. Employment on the railroads, in mining, and in the construction industry also declined.

Distribution

Department stores sales showed a seasonal decrease from December to January, while sales at variety stores and mail order sales declined by more than the usual seasonal amount.

Freight-car loadings continued to decline in January, reflecting principally a reduction in shipments of coal.

Commodity prices

Prices of steel scrap and nonferrous metals declined from the middle of January to the third week of February, following some advance in December and the early part of January. There were further decreases in some other basic commodities, while prices of cotton and silk advanced. Livestock products continued downward and a number of finished industrial products declined further. Prices of pig iron and most finished steel products have been reaffirmed for second quarter delivery.

Bank credit

During the first three weeks of February excess reserves of member banks were little changed from the level of $1,400,000,000 reached at the end of January following the post-holiday return of currency from circulation.

During January there were substantial reductions in commercial loans and brokers' loans and moderate increases in investments at reporting member banks in 101 leading cities. In the first three weeks of February loans and investments of these banks showed little change.

Money rates

Rates on Treasury bills and yields on Treasury notes and bonds continued in February at the low levels reached in the latter part of January.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 26, 1938.

SUBJECT: Code Words Covering New Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

NOZMEN - Treasury Bills to be dated March 2, 1938, and to mature June 1, 1938.

NOZMIS - Treasury Bills to be dated March 2, 1938, and to mature June 16, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release February 28, 1938.

The Board of Governors of the Federal Reserve System today announced the appointment of Howard Phillips, Executive Vice President of the Dr. P. Phillips Co., Inc., Orlando, Florida, as a director of the Jacksonville branch of the Federal Reserve Bank of Atlanta for the unexpired portion of the term ending December 31, 1939.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-198

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

March 4, 1938

SUBJECT: Call Reports of State Bank Members and their Affiliates

Dear Sir:

There have been forwarded to you today under separate cover the indicated number of copies of the seven forms attached hereto, for the use of State bank members and their affiliates in submitting reports as of the next call date:

Number of copies	Form
	Form FR 105, Report of condition of State bank member.
	Form FR 105b (Schedule "O"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
	Form FR 105e, Publisher's copy of report of condition of State bank member.
	Form FR 105g, Alternate Schedule E, Loans and Discounts.
	Form FR 220, Report of affiliate or holding company affiliate.
	Form FR 220a, Publisher's copy of report of affiliate or holding company affiliate.
	Form FR 220b, Instructions for preparation of reports of affiliates and holding company affiliates.

The number of copies of Forms 105b, 220, 220a, and 220b being forwarded to you is based on the requirements therefor as reported in response to the Board's inquiry.

The only change made in Form FR 105 since the last call for reports is the elimination from Schedule E of item 9, "Total loans eligible for rediscount with Federal Reserve Bank". It is understood that the Comptroller's office will eliminate the same item from the national bank call report form when that form is reprinted. Form FR 220b has been revised by substituting the amended terms of waiver applicable to reports of affiliates, a copy of which was inclosed with the Board's letter S-52 of December 22, 1937. No change has been made in any of the other forms.

The same procedure should be followed as on the last call for condition reports in mailing blank forms to State bank members, examining the reports, and forwarding copies thereof to the Board. The usual summary statement should be mailed to the Board showing the classifications of loans and investments, by classes of banks, in time to reach the Board within three weeks after the date on which the call is made, if practicable.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1938
R-199

Dear Sir:

Referring to the Board's letter R-164 of January 13, 1938, following is a statement of changes reported during February in the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Deletion

Michigan
Detroit — Commonwealth-Commercial State Bank

Addition

Michigan
Detroit — Commonwealth Bank

The Commonwealth-Commercial State Bank should be added to the list (R-164-c) of nonmember banks which changed their names after filing agreements with the Board of Governors of the Federal Reserve System pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, with the following note:

(Name changed as of January 27, 1938, to "Commonwealth Bank")

Very truly yours,

L. P. Bethea

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-200

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 5, 1938.

SUBJECT: Code Words Covering New Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

NOZMUD - Treasury Bills to be dated March 9, 1938, and to mature June 8, 1938.

NOZMYL - Treasury Bills to be dated March 9, 1938, and to mature June 16, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

March 8, 1938.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of February, 1938.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-201-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
February 1 to 28, 1938.

Federal Reserve Notes, Series 1934

	$10	$20	Total Sheets	Amount
Boston	105,000	20,000	125,000	$ 12,000.00
New York	185,000	45,000	230,000	22,080.00
Philadelphia	90,000	25,000	115,000	11,040.00
Cleveland	90,000	-	90,000	8,640.00
Richmond	40,000	30,000	70,000	6,720.00
Atlanta	45,000	-	45,000	4,320.00
Chicago	100,000	55,000	155,000	14,880.00
St. Louis	60,000	-	60,000	5,760.00
Minneapolis	30,000	-	30,000	2,880.00
Kansas City	30,000	20,000	50,000	4,800.00
Dallas	15,000	-	15,000	1,440.00
San Francisco	75,000	40,000	115,000	11,040.00
	865,000	235,000	1,100,000	$105,600.00

1,100,000 sheets, @ $96.00 per M, ... $105,600.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bonds.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code word has been designated to cover a new issue of Treasury Bonds:

NOWDIM - 2 1/2% Treasury Bonds of 1948, to be dated March 15, 1938, and to mature September 15, 1948.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 12, 1938.

SUBJECT: Code Words Covering New Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

NOZNAK - Treasury Bills to be dated March 16, 1938, and to mature June 15, 1938.

NOZNED - Treasury Bills to be dated March 16, 1938, and to mature June 17, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-204

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 14, 1938

SUBJECT: Functional Expense Exhibit,
Second Half, 1937

Dear Sir:

There is inclosed a copy of the Board's functional expense exhibit for the second half, 1937, which has been compiled from the semi-annual functional expense reports (Form E) received from all Federal Reserve banks and branches. Additional copies of the exhibit are being forwarded to your bank under separate cover.

In accordance with a recommendation of the Presidents' Conference Committee, which recently reviewed suggested changes in the functional expense report and in the Manual of Instructions governing its preparation, the functional expense exhibit, beginning the first half, 1938, will show approximately the same detail for each function and expense unit as is contained in the functional expense reports.

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-205

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release March 14, 1938

The Board of Governors of the Federal Reserve System today announced the appointment of Henry I. Harriman of Boston, Massachusetts, as a class "C" director of the Federal Reserve Bank of Boston for the unexpired portion of the term ending December 31, 1940.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

March 14, 1938.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of February, 1938.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-District Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF FEBRUARY, 1938.

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses(1)	Expenses Paid by Banks and Board(2)	Payable to Board of Governors
Boston	28,555	1,656	30,211	$ 503.25	$ 251.78	$ 251.47
New York	85,551	---	85,551	1,425.10	1,020.06	405.04
Philadelphia	24,163	1,657	25,820	430.11	236.61	193.50
Cleveland	35,739	1,700	37,439	623.65	228.33	395.32
Richmond	36,591	1,676	38,267	637.45	184.14	453.31
Atlanta	51,011	1,606	52,617	876.49	276.07	600.42
Chicago	62,599	1,712	64,311	1,071.29	1,157.78	86.49(*)
St. Louis	54,559	1,613	56,172	935.71	245.72	689.99
Minneapolis	23,696	1,594	25,290	421.28	135.55	285.73
Kansas City	54,462	1,641	56,103	934.56	259.18	675.38
Dallas	51,615	1,604	53,219	886.52	267.75	618.77
San Francisco	64,023	1,720	65,743	1,095.14	380.53	714.61
Board of Governors	368,872	---	368,872	6,144.63	11,341.68	---
Total	941,436	18,179	959,615	$15,985.18	$15,985.18	$5,283.54
						86.49(a)
						$5,197.05

(1) Based on cost per word ($.01665791) for business handled during the month.

(2) Payments by banks are for personal services and payments by Board are for personal services ($1,472.80) and wire rental ($9,868.88). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

(*) Credit

(a) Amount reimbursable to Chicago.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-207

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 14, 1938.

Dear Sir:

Referring to the Board's letter of February 18, 1938, R-189, subject Holidays During March, the Board is now advised that the Governor of Utah has declared Monday, March 28, a legal holiday in that State in observance of Arbor Day, and the Salt Lake City Branch of the Federal Reserve Bank of San Francisco will be closed on that day. Please include transit clearing credits of March 28 for the Salt Lake City Branch with your credits for the following day.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 17, 1938.

SUBJECT: Holidays during April, 1938.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the following holidays will be observed by Federal Reserve banks and branches during the month of April:

April 8 (Friday), Forefathers' Day
Philadelphia
Pittsburgh

April 12 (Tuesday), Halifax Day
Charlotte

April 13 (Wednesday), Thomas Jefferson's Birthday
Birmingham

April 15 (Friday), Good Friday
Philadelphia
Pittsburgh
Baltimore
Jacksonville
Nashville
New Orleans
Havana Agency
Memphis
Minneapolis

April 18 (Monday), Easter Monday
Charlotte

April 19 (Tuesday), Patriots' Day
Boston

April 21 (Thursday), San Jacinto Day
Dallas
El Paso
Houston
San Antonio

April 22 (Friday), Arbor Day
Omaha

April 26 (Tuesday), Southern Memorial Day
Atlanta
Birmingham
Jacksonville

On the dates given the offices affected will not participate in either the transit or the Federal Reserve note clearing through the Inter-district Settlement Fund. Please include transit clearing credits for the offices affected on each of the holidays with your credits for the following business day. No debits covering shipments of Federal Reserve notes for the head offices concerned should be included in your note clearings of April 8, 15, 19, 21 or 26.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers
Saturday, March 19, 1938.

March 17, 1938.

The Board of Governors of the Federal Reserve System has adopted the following amendment No. 1 to its revised Regulation T, effective March 21, 1938:

Amendment No. 1 of Revised Regulation T - Effective March 21, 1938.

1. Section 4(b) of said regulation is amended by striking out the word "and" after the semicolon in paragraph (2) of said section, by striking out the period at the end of paragraph (3) of said section and substituting therefor a semicolon and the word "and", and by adding at the end thereof a new paragraph reading as follows:

"(4) A transaction consisting of a withdrawal of cash or registered or exempted securities from the account shall not be subject to the restrictions specified in the second paragraph of section 3(b)."

2. The second paragraph following paragraph (2) of section 4(c) of said regulation is amended by adding the following sentence at the end thereof:

"If any shipment of securities is incidental to the consummation of a transaction in a special cash account, the period applicable to the transaction under the foregoing provisions of this paragraph or the preceding paragraph shall be deemed to be extended by the number of days required for such shipment, except that the total extension of such period pursuant to this sentence shall not exceed 7 days for any transaction."

3. Paragraph (2) of section 4(f) of said regulation is amended to read as follows:

"(2) Effect and finance, for any member of a national securities exchange who is registered and acts as an odd-lot dealer in securities on the exchange, such member's transactions as an odd-lot dealer in such securities, or effect and finance, for any joint adventure in which the creditor participates, any transactions in any securities of an issue with respect to which all participants, or all participants other than the creditor, are registered and act on a national securities exchange as odd-lot dealers."

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Monday, March 21, 1938.

The following ruling will appear in the Federal Reserve Bulletin.

Time When Guarantee Is Filed With Secretary Of Exchange

Under section 6(c)(2) of Regulation T, one of the requirements for a guarantee being given effect for the purposes of the regulation is that "a duplicate original of the guarantee has been filed with the secretary of a national securities exchange of which the creditor is a member or through which his transactions are effected".

The Board recently considered a case in which a creditor had received a guarantee that satisfied all other requirements for its effectiveness under the regulation, but the creditor's office was located at such a distance from an appropriate national securities exchange that it would require several days for the duplicate original to reach the secretary of the exchange by mail. The question presented was whether in such circumstances, if the creditor mailed the duplicate original to the secretary of the exchange and also advised the secretary of these facts by telegraph, the creditor might thereupon treat the guarantee as having been appropriately filed, instead of allowing time for the duplicate original to reach its destination.

It is recognized that filing requirements of other statutes or regulations frequently are held not to be complied with until the document in question has been received in the office of the person with whom it is to be filed. The Board expressed the opinion, however, that in view of the purposes of this requirement in Regulation T it would be proper in a case such as that described to treat the duplicate original of the guarantee as having been filed with the secretary of the exchange as of the time when the duplicate original has been mailed to him and he has been advised by telegraph.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-211

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 19, 1938.

SUBJECT: Code Words Covering New Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

NOZNIP - Treasury Bills to be dated March 23, 1938, and to mature June 17, 1938.

NOZNOE - Treasury Bills to be dated March 23, 1938, and to mature June 22, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-212 179

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

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

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

March 16, 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 February and excerpts therefrom will be found on the following pages. A table showing for all twelve banks the number of visits made, meetings attended, and addresses delivered has also been prepared and follows the quotations.

The reports reflect a prevailing low level of business activity. In some localities conditions appear to have grown worse since the first of the year, but in others there appears to have been definite improvement.

New York, Cleveland and Atlanta mention an active interest on the part of bankers in F. H. A. financing. This interest appears to be greatest in the field of modernization loans. Philadelphia reports on the other hand that bankers have done very little F. H. A. financing.

New York, Cleveland and Richmond mention a noticeable tendency toward the consolidation of banks of relatively small size, in some cases involving branch operations.

In various districts the activity of banks in developing correspondent business is mentioned. Chicago mentions the case of a country bank in Michigan that is organizing a clearing and collection service among neighboring banks of smaller size which will carry their accounts with it. In connection with the importance with which banks regard the correspondent relationship, the increase in reserve requirements continues to be a matter of some dissatisfaction. It is also mentioned as interfering with investments.

Minneapolis and Kansas City mention particularly the concern which bankers feel over the Patman Bill; there is apparently widespread conviction that the measure is a threat to the independence of the privately managed bank. According to Kansas City, the opposition to the measure seems to be stronger among small banks than large ones.

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

Boston

(Boston attended five bankers' meetings but made no visits to individual banks during the month.)

New York

Albany and Schenectady Counties, New York

Although there has been some decline in industrial activity in and around Albany, especially in the railroad yards and shops, the volume of general business has been comparatively stable during the past six months and department store sales during the 1937 Christmas season were about equal to the totals of the previous year. Increased activity of the various departments and bureaus of New York State, the primary factor in the Albany employment and general business situation, has tended to offset the decline in industry.

In Schenectady, the General Electric Company's payroll, which remained practically stationary until near the end of 1937, has been declining steadily since the first of the year. Whereas officers of that company in October estimated that business would continue on a steady scale through the first half of 1938, they now predict that 1938 volume may be 50 per cent under that of 1937. The American Locomotive Corporation plant, which employed as many as 3,000 people last year, has been practically closed since January 1 and although the corporation received a small amount of repair work which was expected to carry a limited force through February, there is little prospect of increasing operations during March. Several local banks comment that the working population in Schenectady is more dissatisfied now about the lack of employment than in 1932.

Westchester County, New York

One member bank in Tarrytown (with deposits of $1,800,000) continues to specialize in Federal Housing Administration mortgages and leads all other institutions in the county in handling this particular class of business. This bank has made almost $6,000,000 Title II mortgage loans and has actually sold and delivered $5,620,000 of such obligations. Most of the mortgages granted by this bank are on homes located in Brooklyn and Queens and have been arranged through a mortgage broker in Jamaica, Long Island. Since the enactment of the new housing bill the bank has received applications totaling $267,000 for 90 per cent mortgages. The directors are so pleased with the experience their institution has had in servicing Federal Housing Administration mortgages that they are now considering the formation of a national mortgage company to service Federal Housing mortgages on large apartment houses. Fifteen other commercial banks in the county have granted an aggregate of $2,756,000 Federal Housing Administration mortgage loans.

Most of the manufacturing plants have curtailed their operations materially since last October. In Yonkers, the Alexander Smith and Sons

New York continued

Carpet Company, which normally gives employment to 5,500 people, is now employing about 3,000 on a $2\frac{1}{2}$ day a week basis with a weekly payroll of $55,000 as compared with $76,000 last October; the Otis Elevator Company is now operating on a 3 day a week basis and has reduced the number of employees from 3,000 to less than 1,500, decreasing the weekly payroll to $35,000 as compared with $52,000 last October.

Last October the Chevrolet and Fisher Body plants in North Tarrytown were employing a total of 3,500 workers but during the last two months of 1937 these shops were practically closed. Since the first of this year, however, business has improved to the extent that they have re-employed 2,100 men working on an average of three days a week.

Union County, New Jersey

Bankers generally are welcoming the restoration of modernization and home repair loans as provided by the recent amendment to the National Housing Act, and refer to their good experience with the similar class of loans under the first authority, and to the fact that these loans have given their banks a profitable source of income.

The president of a nonmember trust company made the remark, although not in the form of a criticism, that the increase in reserve requirements had tied up funds that might otherwise have been used to purchase more outstanding mortgage participation certificates (these not being guaranteed by the trust company) in which event the underlying mortgages could have been taken directly into the bank's portfolio with consequent benefit to the earnings of the institution.

The business recession has affected the larger basic industries in this county to a greater extent than the smaller miscellaneous manufacturing concerns. The General Motors Corporation's plant in Linden is at present employing 800 which is less than one-third the number employed last summer, and most of them are now working only three days a week. The Mack Truck division of the International Motor Corporation's factory in Plainfield still has its 500 to 600 employees on the payroll but the plant has been operating only two or three days a week.

The largest single industry, the Singer Manufacturing Company, continues to give steady employment to its normal force of workers numbering about 5,700; and the Diehl Manufacturing Company, a subsidiary of the Singer company making small motors and fans, has some contracts from the Navy Department and continues to operate with an extra shift. The various oil companies including the Standard Oil Company of New Jersey and the Sinclair Oil Company have also maintained steady employment. The Simmons Company, manufacturers of mattresses and furniture, is now employing its normal force of 2,000 after a seasonal lay off of a part of its help.

New York continued

Among some of the large concerns in the Elizabeth industrial area which have been obliged to curtail their operations are: American Type Founders Company, manufacturers of printers' type and printing presses, which is now running at only 50 per cent of capacity; the Dupont Company, manufacturing chemicals and acids, has laid off about half its normal force of 1,000; the General Aniline Works, Inc., manufacturers of dyes, is now employing about half its 2,000 employees; and the American Cyanamid Company is now working only 400 of its former force of 700.

Philadelphia

Throughout the sections of the district visited during February bankers referred to the general business conditions in their respective communities as being fair to good. A business decline was reported in all of the industrial towns. Some improvement, however, has been noticed since the beginning of this year. Heavy industries and those engaged in the manufacture of tools and machinery used in the production of automobiles are slack and little improvement in the latter is expected until automobile output is speeded up. The hosiery, knitting, and other needle industries have operated more steadily than any of the others, providing employment for a large number, the majority of whom are women. The industrial activities in and around Wilmington are operating on a reduced schedule but increased activity is expected in the shipyards because of the Federal Government Naval program.

The agricultural sections enjoyed a fairly good year. Crops did not bring the prices anticipated but because of the large quantities profits were realized. This, however, did not hold true with apples, as large quantities were placed in storage in anticipation of better prices which were not forthcoming. To relieve the market somewhat, the Federal Surplus Commodities Corporation is purchasing large quantities. This is essential as several varieties must be moved very shortly or they will be unfit for marketing. Satisfactory returns from the fattening of steers for slaughter appear to be doubtful this year and bankers fear that the farmers will suffer losses.

Manufacturers and canners developed large inventories because of low prices and poor business conditions but recently have received orders which will permit them to make some sales. As the inventories are liquidated, bank debts are being repaid and in those cases where the banks have borrowed from the reserve bank they, likewise, are reducing their obligations.

Demand for credit accommodation is fair but in most banks the total invested in loans, discounts, and mortgages is decreasing. The prevailing rates charged are between 5 and 6 per cent. Lower rates are charged on prime risks and loans secured by listed marketable collateral. Liquidation

Philadelphia continued

is considered satisfactory. In some instances bankers do not wish their better lines reduced because of the income they provide and their inability to reinvest the funds at a satisfactory rate. There has been very little F. H. A. activity and very few comments were heard regarding the new provisions of the National Housing Act. Comments regarding Federal agencies in most instances were favorable.

Investment accounts continue to be the most vital problem because of depreciation. Depreciation in securities in some of the banks is causing capital impairments. However, at only one bank have the directors been requested to post a guarantee. Few securities other than those of the United States Government are being purchased, banks preferring to hold idle cash rather than to enter the market at this particular time.

Deposits show a general increase and various interest rates are being paid on time and savings accounts. One bank has reduced its rate to 2 per cent on the first $5,000, and 1 percent on the balance. Others are paying 2 per cent, but the majority continue to pay the maximum rate. Efforts have been made through county associations to have banks adopt a uniform rate but so far have not been successful.

Cleveland

Practically half of the banks visited during February were called upon in connection with the new check collection plan which was made effective January 31, 1938; and the field force was augmented for that purpose by the addition of six extra representatives from the main office, and one extra representative from each of the two branch offices. These visits were limited to banks which usually could take advantage of the later closing hour. The new plan appears to be favored by the majority of banks and there has been a fairly substantial increase in the number of items handled.

While business continued at low and still receding levels there is somewhat of an upturn in certain sections. Signs of improvement are especially noticeable in the Beaver Valley district of Pennsylvania, and in some portions of southwestern Ohio.

A substantial number of banks report declines in demand deposits. Many banks are expanding their own portfolios largely through F. H. A. loans. At some points in northwestern Ohio the demand for credit accommodations mentioned in last month's report continued, and some banks in the reserve cities have commented on some decline in correspondent bank balances.

The pressure of low earnings is encouraging talk of voluntary mergers or consolidations between banks in communities which clearly are overbanked. This is true in sections where no pressure to effect such consolidations has been applied by any of the supervising agencies.

Richmond

We visited only four member banks and two nonmember banks during February; however, our officers had many contacts with officers of member and nonmember banks, both through attendance upon bankers' meetings and visits to our bank and branches by bankers.

The Federal Deposit Insurance Corporation is giving close attention to banks which are in unsatisfactory condition. Small banks in overbanked towns are being encouraged to sell out to or merge with other banks. In some cases unit banks may become branches. We understand that the Bank Commissioners are cooperating with the F.D.I.C. in this program and that they are meeting with fair success.

The Corporation is endeavoring to get nonmember insured banks to charge off or otherwise provide for all depreciation in bonds below the four highest grades, defaulted bonds, and stocks. The Commissioner in one state in this district does not discriminate in favor of bonds in the four highest grades and takes the position that banks should provide for the depreciation in the entire investment account.

Maryland

Due to the diversification of business, the number of unemployed in Baltimore is less than in most large cities. The Sparrows Point Plant of the Bethlehem Steel Company, one of the largest employers of labor in the Fifth district, now employs 20,500 persons three days a week as against a capacity force of 25,000. The comparatively good showing of this particular steel plant is said to be due to several favorable factors including a water front location.

The Glenn L. Martin Company, manufacturers of airplanes, expanded their business and increased the number of employees materially during 1937, and the outlook for 1938 is even better.

The brokers and investment bankers generally are depressed on account of the small volume of security business. Some small firms have gone out of business and others have reduced their personnel.

Virginia and the Carolinas

Tobacco manufacturing has remained stable.

Textile mills are operating on an average of about 50% to 60% of normal, which is a slight improvement over December, 1937. Inventories have been reduced in finished goods and combed yarns. The makers of full-fashioned hosiery continue to occupy a more favorable position than the manufacturers of seamless hose and half-hose. Additional plants for the manufacture of full-fashioned hosiery are in the process of construction in North Carolina.

Richmond continued

Two of the leading furniture manufacturers are operating four days a week and have no excess inventories. The manufacturers of high-grade furniture are doing better than the makers of lower grades. As a whole, they believe business in their line will improve by spring.

Atlanta

State of Florida

In February visits were made to twenty-nine banks in central Florida. The principal occupations in this part of the state are general farming, citrus and truck growing, live stock raising and related industries. Considerable damage to truck and citrus crops from cold weather was reported, the estimate of damage ranging up to 50% in some localities. In addition, the price of citrus fruits has proved disappointing.

The matter of exchange continues to be one of considerable interest to many bankers, and probably most of the small country non-member banks visited would be very reluctant to give up this form of income, particularly so when the bankers say they are unable to make satisfactory investments and loans with available surplus funds. The president of a state bank member (which was recently admitted to membership) stated that the bank's membership in the System had resulted in added prestige for the bank. This bank, for competitive reasons, had remitted at par for some time prior to its admission to membership.

The cashier of one member bank expressed the opinion that reserve requirements applicable to small country banks were too high, and that an adjustment should be made which would permit increased earnings. The president of another member bank voiced his approval of the action of the Board of Governors in raising reserve requirements.

One member bank has discontinued the discount of automobile finance paper, largely because of the flooded condition of the used car market. Some of the banks show a decided interest in F.H.A. insured mortgages, while other banks are hesitant, principally because of the long maturities.

In 1937 earnings of a number of the banks were reported to be the best in several years, and in a large number of cases both loans and deposits show an increase over a year ago.

Member banks affiliated with one of the three holding companies located in Jacksonville clear their checks through the principal bank in the group rather than through the Federal Reserve Bank. However, a number of banks not affiliated with any group use their correspondent banks in the collection of checks, in preference to the Federal Reserve Bank.

Chicago

Visiting bankers report business conditions in their localities generally very quiet and bank loans still difficult to obtain. One banker, however, from a Wisconsin town of 20,000 population states that the local banks are having more demand for loans than in the past two or three years, some of these loans being made to manufacturers, some to farmers who are holding barley, and some for the purpose of buying property. He also states that while the furniture factories and foundries are quiet, at least four concerns in his town are running full time.

A banker in a Michigan town of 13,000 stated that he had recently called a meeting of the smaller bankers in his area, comprising about three counties, and arrangements were made for these banks to clear their checks through his bank. Checks received on the smaller banks will be sent direct and accounts charged immediately. The banker feels that this will not only facilitate the collection of items, but will put him in a position to obtain some loans by participating with the smaller banks. He stated that other banks are watching this arrangement with a good deal of interest, and if the plan proves successful it will probably be adopted at other points.

Several nonmember bankers have called here for the purpose of discussing membership and others were interviewed at the Regional Conference at Des Moines, Iowa. As a result, the directors of one of the banks have passed a resolution authorizing the officers to file application for membership; two of them have indicated that they would consider some capital correction; one will decide whether to convert to a National bank; one stated frankly that his bond depreciation would probably make his bank ineligible, while others indicated that they would give the matter further consideration.

During the month, we offered our member banks the privilege of obtaining at cost our publication "Business Conditions" for distribution to their customers. As a result, we have received orders for approximately 5,000 copies monthly for a period of twelve months.

We also advised our member banks that, effective March 21, this bank would extend the time for receiving and handling on the current day deposits of checks drawn on out-of-town par-remitting banks until 6:00 P.M. (Saturdays 5:00 P.M.), credits on such deposits to be deferred from the date of receipt in accordance with our present time schedule.

Chicago continued

This change will permit earlier presentation of a large number of items now held over for the next day's business and will result in correspondingly earlier credit to the sending bank.

St. Louis

During the month our officers and field representative visited 99 banks, of which 51 were in Kentucky, 28 in Arkansas, 15 in Mississippi, 3 in Illinois, and 2 in Tennessee. Following is a resume of the reports covering these visits:

Agriculture, Industry, and Trade:

In the agricultural sections of western Kentucky, there is slight probability of any change in conditions until the harvest season of 1938, unless there should be substantial advances in market prices of cotton and corn over the prices at which Government loans were made. The principal tobacco markets have now closed for the season and while prices were much lower than those for the 1936 crop, the quantity grown was far in excess of that produced during the preceding season. However, a high percentage of the crop was of poor quality and grade, which reduced the income.

The peach crop in Arkansas is about a month ahead this year on account of the unseasonably warm weather. It was stated that in its present stage, the crop cannot stand a temperature of less than 26 degrees.

Cotton in the hill sections is out of the field and very little planting has been done for the 1938 crop. In the Mississippi Delta there was still a lot of cotton in the field, and practically no ground has been broken for the 1938 crop. Very few of the Delta banks have a large volume of CCC loans. The cotton picked since December was of a very low grade and not eligible for the loan. It looks as if the high grade cotton picked earlier in the fall has moved to market, while the low grade cotton is being held. However, the Delta generally appeared to be in good condition, and bankers interviewed were of the opinion that the low price of cotton was offset by the increased production.

January sales by retail merchants in Mississippi showed an increase. This is undoubtedly because the cotton picking season extended over 5 months instead of the usual three.

Commercial banking:

Practically all country banks are looking forward to a stimulated demand for loans as the spring planting season approaches. This is

St. Louis continued

particularly noticeable in the South, where considerable preliminary preparation has already been made in connection with breaking of ground when weather conditions permit. Practically all banks are prepared to supply the credit demands of their respective communities, though in some quarters it will be necessary for them to seek aid through customary channels before the season is completed. Officers of these banks, without exception, state that they are willing and anxious to grant accommodations.

With the strengthening in values of Government securities, as well as those bearing the guarantee of the Government, a keener interest is being shown in this form of investment, and any previous apprehension regarding such securities has almost entirely disappeared.

One banker stated that his difficulty was convincing reserve bank officers that their valuation on livestock covered by chattel mortgages was too low. Last fall this banker needed accommodation for a short period and secured it from his Louisville correspondent at a rate lower than the FRB rate and with less "red tape". Advances to distillers are the principal source of revenue of a Kentucky bank which wished to know whether the reserve bank was ever going to perfect some plan to enable member banks to borrow on warehouse receipts covering whiskey.

Minneapolis

(The following report covers the meeting of Group I, Wisconsin Bankers' Association, Minneapolis, Minnesota, February 22, 1938.)

The principal worry of bankers seemed to be their bond accounts, and the principal topic of interest was our forthcoming member bank conference scheduled for March 12. This conference is being limited to member banks in the district and has been so announced in every letter and piece of publicity, and yet a number of verbal requests were received at the convention from bankers in Milwaukee, from bond men, from nonmember bankers, and from others who were ineligible for permission to attend the conference.

As a result of more than one year's use of the Federal Reserve movie in the public relations program of the Wisconsin Bankers' Association, the bankers of that state have become definitely "movie-minded". Many bankers talked to us about our movie and about the possibility of a commercial bank film being prepared to serve similar purposes. Their association has voted an appropriation of $8,000 to produce and distribute such a movie, and the bankers seem to be eagerly awaiting its advent.

Minneapolis continued

One of our officers spent a good share of the day following the convention with the Secretary and Assistant Secretary of the Wisconsin Bankers' Association, going over technical problems in connection with the preparation of the script and scenario for their movie.

Several bankers were deeply concerned over pending Federal legislation, particularly the so-called Patman Bill. They were fearful that this bill, if enacted into law, might prove an entering wedge by the government to take over all the banks, and were hopeful that sufficient opposition would develop to prevent the passage of this bill.

The feeling with regard to branch banking legislation was somewhat mixed; the wide variance in the attitude of the individual bankers dependent on their estimate of its effect upon their local situation.

The matter of competition from governmental agencies was also a point of issue by some of the bankers. It was generally considered that competition by the Production Credit Corporation was unfair, although in most sections not very energetically pushed. Several bankers were hopeful that the Postal Savings System would reduce the rate of interest they were paying so as to bring it more in line with that which many banks felt compelled to pay.

It was generally agreed that the demand for credit was light. The matter of suitable investments for their funds was a problem for many bankers.

Bankers attending this meeting generally reported that their particular sections were suffering from lack of moisture and that unless they received a considerable amount of snow during the remainder of the winter or much needed moisture during the spring and summer, crops would be adversely affected this year.

One of our officers devoted approximately two hours to discussing industrial loans with several of the bankers present. It appears that the recent widespread publicity given the small businessman in an attempt to help him, has created a feeling that the government is about to launch a program to aid business with very little regard for the collateral behind the loan.

After the banquet in the evening, Mr. Orval W. Adams, president of the American Bankers Association, read a paper eulogizing George Washington for his great accomplishments, and endeavoring to compare

Minneapolis continued

Washington's administration to that of Roosevelt's. After the banquet a number of bankers indicated that they were very much disappointed with the paper read by Mr. Adams. Several of them said that they considered Mr. Adams an outstanding speaker and that they came principally to hear him give one of his typical dynamic talks lambasting the present administration.

Kansas City

A Colorado State banker told a representative of this bank that the only thing keeping his institution from becoming a member of the Reserve System was the present reserve requirement. This banker had formerly been a national banker and was familiar with the Reserve System and appreciated its services. This experience is a good illustration of a rather prevalent difference of opinion between country and city bankers in regard to reserve requirements. Because of conditions in recent years, city banks generally have been more accustomed to carrying larger reserves and the increased requirement under present conditions is not a major question with most of them. Country banks, on the other hand, feel the necessity of maintaining satisfactory correspondent balances and many take the position that increased reserves mean reduced investments and hence smaller earnings.

The month of February brought great improvement in the moisture situation over most of the Tenth District. Precipitation in Oklahoma for this month was the largest on record--it being excessive in the southern and east-central portions of the State. Good snows were general over most of Kansas and Nebraska. Winter-wheat prospects are greatly improved even in western Kansas and the panhandle of Oklahoma. It must be remembered, however, that this is only a surface improvement as the subsoil in these states is still bone dry and long wet spells or opportune rains will be necessary to make crops.

Both individual bankers and banking groups have recently shown increased interest in the Patman Bill. Of special significance is the fact that the opposition to this measure seems, if anything, stronger among small banks than large ones. Bankers look upon this bill as a step in the direction of complete unification of the banking system. In a country so large as this, centralization of banking in Washington they believe will necessitate an intolerable bureaucracy.

The upturn in lamb and beef-steer prices in recent weeks is serving to limit feeding losses. Lamb prices fell drastically between the middle of September and the middle of February, but since then have risen nearly a cent a pound. Colorado fattens approximately one-fourth

Kansas City continued

of the country's total grain-finished lambs, this State fattening more than a million lambs annually. In the beet-sugar regions of northern Colorado lamb feeding is extensively employed for utilizing the beet tops and the beet pulp. Beef steers fell from $17.25 a hundredweight in September to under $8.50 the first week in February. The high price did not last long enough to be representative and the price range of other types of cattle was not so extreme, but the price decline has been such as obviously to make profitable feeding operations impossible. However, prices are again tending upward and to a degree, at least, are reducing feeding losses.

Reports of the demand for bank loans are somewhat checkered. The best demand is in Oklahoma where bankers in certain sections describe it as being rather brisk with the possibility of considerable rediscounting in the coming growing season. A banker in the irrigated region of south-central Nebraska also reported some demand for loans. He said his institution was meeting the competition of the Production Credit Corporation with respect to all desirable loans. On the other hand, bankers in central and north-central Kansas report little or no demand for funds.

There are few signs of business improvement in this District. Retail trade as shown by department store sales was sharply under February a year ago although this was due in part to weather conditions. Construction activity, which tends to anticipate general business revival, continues highly disappointing. The common explanation of the low state of commercial construction activity is the poor prospect under present conditions of a return on investments in this field.

Dallas

Fifty-two banks, located in various sections of Texas and New Mexico, were visited. Some of these visits were made in connection with annual "group meetings" conducted by the Texas Bankers Association and were therefore too brief to permit detailed discussions of the problems and attitudes of the banks visited.

The vice president of a National bank having deposits of $25,000,000 expressed the opinion that the Board of Governors should reduce the reserve requirements of country member banks. No other comments or criticisms relating to reserve requirements were heard.

Satisfaction with membership requirements and Federal reserve policies was generally expressed, and the principal complaint voiced by the Texas banks related to the continued low level of earnings. However, a number of banks informed our officers that they are experiencing a somewhat better demand for credit this year than they had in 1937.

Dallas continued

In the rural communities in Texas the matter that appears to be uppermost in the minds of the bankers at this time is the government's program for aiding the cotton producers this year, the details of which had not been announced at the time our visits were made.

In the urban centers local business conditions were described as being fairly satisfactory, notwithstanding the country-wide recession of the past five months.

A unique form of bank relations activities was engaged in by our bank in February when a dinner was given at Houston by our branch at that city for the purpose of bringing our officers into closer contact with the operating executives of the Houston member banks. No bank presidents were invited, the attendance being limited to vice presidents in direct charge of the daily operations of their respective banks.

Conditions in New Mexico and Arizona were found to be somewhat unfavorable, particularly with reference to agriculture, copper mining and the livestock industry. Cotton farmers are reported as dissatisfied with the government's acreage reduction plans for 1938. A reduction in the price of copper from 14 cents a pound to 10 cents has caused an appreciable contraction of activity and payrolls at the copper mines, an increase in savings deposits in expectation of further curtailment of employment, and a slowing down in retail trade.

Price declines in the livestock, wool and mohair markets have adversely affected the position of cattle and sheep raisers in Arizona and New Mexico, although livestock has wintered well, is in good flesh, and a large calf crop is expected during the spring.

San Francisco

(Los Angeles Branch)

Bellflower

The principal activity in this area is the production of milk. While the supply (of milk in the area) has not increased, the consumption over the last few months has decreased considerably, and this is ascribed to current conditions. Apparently there has been a large conversion from Holsteins, which are large producers of milk with a small butter fat content, to Guernseys and Jerseys, which produce less milk but a higher butter fat content. Some efforts have lately been made by the State Milk Control Board to stabilize milk prices, but court

Los Angeles Branch continued

actions have resulted and the outcome is in doubt. Two of the substantial distributors in Los Angeles have recently taken advantage of 77-B, and it is estimated that upwards of $50,000 due to producers in this vicinity is tied up, with repayment problematical.

Producers who understand their business and are hard workers are at the present time making a little money. The others are about breaking even.

The outlook is for green feed at favorable prices.

Compton

Situated midway between Los Angeles and Long Beach. The population consists principally of wage earners who work in the various surrounding oil fields. There is a limited amount of manufacturing, principally oil well material, and a certain amount of agriculture. Owing to the character of work in which the population is engaged, the current recession has not been felt to the same degree as in some other lines. The merchants in the town had a good year in 1937, although not as good as 1936.

Since the recent revision of the National Housing Act, increased inquiries have been experienced.

Garden Grove

Located in a high-class valencia orange district. Vegetables, strawberries, and chili peppers are also a considerable source of income to the community. Owing to the freeze in the early part of 1937, last year's valencia crop brought about half of the usual proceeds. It is estimated that the chili pepper crop grown in the vicinity (which probably represents 90% of the total United States crop) returned to the growers approximately the same amount as was returned by the valencia oranges. Conditions this winter, however, have been ideal for the growing of oranges, and unless something untoward in the way of a late frost occurs, the valencia orange crop this fall will probably amount to the second largest in the history of the community.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

FEBRUARY, 1938

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	None	None	--	5	*	None	--
New York	123	44	167	13	5,481	3	593
Philadelphia	48	25	73	5	2,070	2	315
Cleveland	95	56	151	5	2,962	1	50
Richmond	4	2	6	7	2,597	1	250
Atlanta	11	18	29	None	--	None	--
Chicago	2	--	2	4	2,010	None	--
St. Louis	47	52	99	4	485**	1	200
Minneapolis	27	20	47	2	524	2	300
Kansas City	None	None	--	2	478	1	100
Dallas	51	1	52	9	4,629	None	--
San Francisco	12	None	12	15	1,545	1	75

*Attendance not reported
**Attendance at 1 not reported

R-213

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Friday, March 25, 1938.

The following summary of general business and financial conditions in the United States, based upon statistics for February and the first three weeks of March, will appear in the April issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Volume of manufacturing production showed little change from January to February, while output of minerals declined further. Awards for residential building increased somewhat in February and rose considerably in the first half of March.

Production

The Board's seasonally adjusted index of industrial production, which includes both manufacturing and mining, was 79 percent of the 1923-1925 average in February as compared with 80 percent in January. The decline in the total index was accounted for chiefly by a reduction in output of minerals, particularly of crude petroleum. Steel ingot production showed about the usual seasonal increase and averaged 32 percent of capacity in February. Automobile production decreased slightly further, and output of plate glass continued to decline. Lumber production rose seasonally. In the first three weeks of March activity at steel mills and automobile factories was at about the same average rate as in February. In the nondurable goods industries there were moderate increases in output in February at textile mills and shoe factories, where production has recently been at low levels, while at meat-packing establishments activity declined.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed a sharp decline from January to February, reflecting chiefly a marked reduction in awards for publicly-financed projects. Contracts for residential building increased moderately. In the first half of March there was a considerable further increase reported for residential building and awards for other construction also increased.

Employment

Factory employment and payrolls increased by somewhat less than the usual seasonal amount between the middle of January and the middle of February. The Board's seasonally adjusted index of factory employment was at 83 percent of the 1923-1925 average in February as compared with 84 in January. In the durable goods industries decreases were general in February, though not so large as in preceding months. Employment in non-durable goods industries increased somewhat following a period of rapid decline. Employment in trade, at mines, on the railroads, and in the construction and public utility industries decreased somewhat from the January level.

Distribution

Value of department store sales, as measured by the Board's seasonally adjusted index, declined from 90 percent of the 1923-1925 average in January to 88 percent in February, and in the first three weeks of March there was a further decrease. Sales at variety stores and mail order houses in February showed somewhat less than the usual seasonal increase.

Freight-car loadings decreased further in February, reflecting chiefly reduced shipments of coal and grain, and showed a seasonal increase in the first two weeks of March. The current level of carloadings is about 25 percent less than a year ago.

Commodity prices

The general level of wholesale commodity prices, as measured by the Bureau of Labor Statistics' index, showed little change from the middle of February to the third week of March. There were seasonal increases in prices of livestock and meats, while prices of such basic commodities as wheat, cotton, rubber, zinc, and bituminous coal declined.

Bank credit

Excess reserves of member banks increased during the first three weeks of March to over $1,500,000,000, the highest level since last April. The bulk of the increase occurred at New York City banks, which in the third week of the month held over $700,000,000 of excess reserves.

During February and the first half of March, there was little net change in deposits and in total loans and investments at reporting member banks in 101 leading cities. Holdings of United States Government obligations declined at banks in New York but increased in Chicago. Commercial loans, which had decreased sharply in the four preceding months, showed a further moderate decline.

Money rates and bond yields

Conditions in the short-term money market continued easy in March. Rates on Treasury bills were slightly lower and prime commercial paper was quoted at a range of from 3/4 to 1 percent as against the flat 1 percent rate which had prevailed since a year ago. Yields on Treasury bonds and notes, after declining for the past six months, advanced slightly around the middle of March. Yields on corporate bonds also advanced in March, reflecting principally declines in prices of railroad bonds.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 24, 1938.

Dear Sir:

As you know, at the recent Conference of Presidents the suggestion was made that it would facilitate the use of letters addressed by the Board of Governors to the Federal Reserve banks, which contain rulings with respect to or interpretations of specific sections of law or the Board's regulations, if in each case the relevant provisions of the law or regulation referred to were incorporated in the body of the letter or added as an attachment thereto. The Board will be pleased to comply with this suggestion and a procedure has been adopted which contemplates that in any case in which the applicable provisions of law or a regulation are not incorporated in the body of the letter they will accompany the letter as an attachment.

If, after you have had an opportunity to observe letters prepared in accordance with this procedure, you have any comments or suggestions to make with respect thereto, the Board will be glad to receive them.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-215

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 26, 1938.

SUBJECT: Code Words Covering New Issues of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

NOZNUT - Treasury Bills to be dated March 30, 1938, and to mature June 18, 1938.

NOZNYX - Treasury Bills to be dated March 30, 1938, and to mature June 29, 1938.

Very truly yours,

S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 2, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZOAR - Treasury Bills to be dated April 6, 1938, and to mature July 6, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 5, 1938
R-217

Dear Sir:

Referring to the Board's letter R-164 of January 13, 1938, following is a statement of changes reported during March in the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Deletion

Michigan	
Hudson	Hudson State Bank

Addition

Michigan	
Hudson	Hudson State Savings Bank

The Hudson State Bank should be added to the list (R-164-c) of nonmember banks which changed their names after filing agreements with the Board of Governors of the Federal Reserve System pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, with the following note:

(Name changed as of February 9, 1938,
to "Hudson State Savings Bank")

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-218

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release April 6, 1938.

The Board of Governors of the Federal Reserve System today announced the following appointments:

FEDERAL RESERVE BANK OF PHILADELPHIA

CLASS "C" DIRECTOR:
For unexpired portion of term ending December 31, 1940: Mr. Francis Biddle, member of the law firm of Barnes, Biddle & Myers, Philadelphia, Pennsylvania.

FEDERAL RESERVE BANK OF ATLANTA

Jacksonville Branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:
For unexpired portion of term ending December 31, 1938: Mr. Robert H. Gamble, President, Florida Brick and Tile Corporation, Jacksonville, Florida.

R-219

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release April 6, 1938.

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. St. George Holden, President of the St. George Holden Realty Company, San Francisco, California, as a class "C" director of the Federal Reserve Bank of San Francisco for the unexpired portion of the term ending December 31, 1940.

R-220

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release April 6, 1938.

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. Marion B. Folsom, Treasurer of the Eastman Kodak Company, Rochester, New York, as a director of the Buffalo Branch of the Federal Reserve Bank of New York for the unexpired portion of the term ending December 31, 1938.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-221

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1938.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of March 1938.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-221-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
March 1 to 31, 1938.

Federal Reserve Notes, Series 1934

	$10	$20	Total Sheets	Amount
Boston	105,000	20,000	125,000	$ 12,000.00
New York	185,000	46,000	231,000	22,176.00
Philadelphia	90,000	25,000	115,000	11,040.00
Cleveland	53,000	45,000	98,000	9,408.00
Richmond	40,000	30,000	70,000	6,720.00
Atlanta	45,000	20,000	65,000	6,240.00
Chicago	110,000	105,000	215,000	20,640.00
St. Louis	30,000	20,000	50,000	4,800.00
Minneapolis	30,000	-	30,000	2,880.00
Kansas City	30,000	20,000	50,000	4,800.00
San Francisco	75,000	45,000	120,000	11,520.00
	793,000	376,000	1,169,000	$112,224.00

1,169,000 sheets @ $96.00 per M $112,224.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

FOR THE PRESS

For immediate release April 8, 1938

The following letter has been received by Chairman Eccles of the Board of Governors of the Federal Reserve System:

FEDERAL BUREAU OF INVESTIGATION
UNITED STATES DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

March 22, 1938

Honorable Marriner S. Eccles,
Chairman,
Board of Governors of the Federal Reserve System,
Washington, D. C.

Dear Mr. Eccles:

I want to call your attention to the splendid assistance which has been rendered this Bureau by the Federal Reserve banks in detecting ransom money in connection with several kidnaping cases.

The Federal Reserve Bank branch at Salt Lake City, Utah, in detecting the ransom money which had been paid for the release of George Weyerhaeuser at Tacoma, Washington, assisted this Bureau in locating and apprehending Mr. and Mrs. Harmon Waley at Salt Lake City, Utah, on June 8, 1935. It is recalled that George Weyerhaeuser was kidnaped May 24, 1935 at Tacoma, Washington, by William Mahan and Harmon Waley, assisted by Harmon Waley's wife. The Los Angeles, California, branch of the Federal Reserve Bank assisted in the location and apprehension of William Mahan by detecting the passage of ransom money in Los Angeles, California.

Recently the Federal Reserve Bank branch at Los Angeles assisted in the identification, location and apprehension of John Henry Seadlund alias Peter Anders, who was one of the perpetrators of the kidnaping of Charles S. Ross near Chicago, Illinois, on September 25, 1938.

I thought you and the presidents of the various Federal Reserve Bank branches would be interested in knowing of the assistance which your System has rendered this Bureau in connection with these kidnaping cases. It is by such splendid cooperation that this Bureau is able to carry forward effectively its work of crime detection and prevention, and I desire to express to you both personally and officially the appreciation of this Bureau for this assistance.

Sincerely yours,

J. Edgar Hoover.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1938.

Dear Sir:

For the information of the board of directors of your bank, there is attached a copy of a letter being addressed by the Board today to President Young of the Federal Reserve Bank of Boston with respect to a reduction by the bank in its rate on advances to individuals, partnerships and corporations secured by direct obligations of the United States under the provisions of the last paragraph of section 13 of the Federal Reserve Act, as amended.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT BOSTON

April 8, 1938.

Mr. R. A. Young, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Young:

Mr. Ransom has advised the Board of his telephone conversation with you on April 2, 1938, during which you stated that you planned to present to the board of directors of your bank at its next meeting the advisability of a reduction from 4% to possibly 2% or 2½% in the rate in effect at your bank on advances to individuals, partnerships and corporations secured by direct obligations of the United States under the provisions of the last paragraph of Section 13 of the Federal Reserve Act, as amended, and that you would like to have an expression of the views of the Board with respect to the reduction.

It is noted that while you have received inquiries recently from corporations with respect to such advances and while, in the event a reduction in the rate were effected, you would issue a public statement to the effect that your bank was prepared to make advances to individuals, partnerships and corporations on Government securities at par, you do not believe the bank would be called upon to make any substantial amount of loans, since member banks would be willing to make such advances at their current rate of from 1% to 1¼%, and that the reduction in the rate would be made merely for the purpose of bringing the rate into line with the other existing rates at the bank.

As you know, the rates now in effect at other Federal reserve banks on advances under the authority of the last paragraph of Section 13 of the Federal Reserve Act range from 3½% to 4½%; the discount rate at all Federal reserve banks is 1½%, with the exception of the Federal Reserve Bank of New York where the rate is 1%; and the rate at all Federal reserve banks on loans made under section 10(b) of the Federal Reserve Act is 2%. In view of these circumstances and the level of money rates generally, the Board feels that a reduction in the rate on advances under authority of the last paragraph of Section 13 of the Federal Reserve Act would be desirable, and, therefore, would be willing to approve a reduction of as much as 2% in the existing rate of your bank if such reduction were voted by your directors.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

April 8, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZOBO - Treasury Bills to be dated April 13, 1938, and to mature July 13, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-225

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 15, 1938.

SUBJECT: Reduction of Amounts of Bonds of Federal Reserve Agents, Assistant Federal Reserve Agents, Alternate Assistant Federal Reserve Agents and Federal Reserve Agents' Representatives.

Dear Sir:

The Board now requires an individual surety bond in the amount of $100,000 from each Federal Reserve Agent and in the amount of $50,000 from each Assistant Federal Reserve Agent, Alternate Assistant Federal Reserve Agent and Federal Reserve Agent's Representative. In view of the arrangement which has been established at each Federal Reserve bank under which the nonstatutory functions of the Federal Reserve Agent have been transferred to the bank, an officer of one of the Federal Reserve banks has suggested that the amount of the bond furnished by the Federal Reserve Agent should be reduced.

It is understood that the bankers' blanket bond which has been obtained by each Federal Reserve bank specifically covers the acts of the Federal Reserve Agent and his assistants. Accordingly, the Board is giving consideration to the desirability of reducing to $10,000 the amount of each individual bond covering the Federal Reserve Agents and the Assistant Federal Reserve Agents, the Alternate Assistant Federal Reserve Agents and the Federal Reserve Agents' Representatives. However, before taking any action on this proposition, the Board would appreciate an expression of your views, together with the views of the board of directors of your bank, as to the desirability of such a change. In this connection, your attention is invited to the Board's letter of June 11, 1924 (X-4083). Please forward a copy of the bankers' blanket bond which is in effect at your bank.

Very truly yours,

S R Carpenter

S. R. Carpenter,
Assistant Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS EXCEPT KANSAS CITY

R-226

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers
of Saturday, April 16, 1938.

April 15, 1938.

As a part of the Government's program for encouragement of business recovery, the Board of Governors has reduced reserve requirements on all classes of deposits for all member banks, effective at the opening of business on April 16, 1938. By this action excess reserves of member banks will be increased by about $750,000,000.

Reserve requirements in effect prior to April 16, 1938, and thereafter are shown in the following table:

Classes of member banks and of deposits	Prior to April 16 %	Beginning April 16 %
Demand deposits:		
Central reserve city banks	26	22-3/4
Reserve city banks	20	17-1/2
Country banks	14	12
Time deposits:		
All classes of member banks	6	5

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-227

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 15, 1938.

SUBJECT: Daylight Saving, 1938.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that, beginning Monday, April 25, and ending Saturday, September 24, the following Federal Reserve banks and branches will operate under daylight saving time:

Boston	Pittsburgh
New York Buffalo	Atlanta
Philadelphia	Chicago.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 16, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZOCT - Treasury Bills to be dated April 20, 1938, and to mature July 20, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-229

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 16, 1938.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of March, 1938.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-district Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-229-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MARCH, 1938

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	38,476	2,582	41,058	$ 541.60	$ 314.73	$ 226.87
New York	122,554	---	122,554	1,616.61	1,013.06	603.55
Philadelphia	72,217	2,607	74,824	987.00	236.61	750.39
Cleveland	49,065	2,666	51,731	682.38	220.46	461.92
Richmond	48,603	2,576	51,179	675.10	184.14	490.96
Atlanta	63,286	2,516	65,802	867.99	276.07	591.92
Chicago	84,569	2,809	87,378	1,152.60	1,154.78	2.18(*)
St. Louis	71,761	2,529	74,290	979.96	252.08	727.88
Minneapolis	31,613	2,583	34,196	451.08	169.76	281.32
Kansas City	67,440	2,573	70,013	923.54	259.18	664.36
Dallas	64,516	2,586	67,102	885.14	267.75	617.39
San Francisco	81,672	2,602	84,274	1,111.66	380.90	730.76
Board of Governors	487,763	---	487,763	6,434.08	12,579.22	---
Total	1,283,535	28,629	1,312,164	$17,308.74	$17,308.74	$6,147.32
						2.18(a)
						$6,145.14

(1) Based on cost per word ($.013190988) for business handled during the month.

(2) Payments by banks are for personal services and payments by Board are for personal services ($1,472.80) and wire rental ($11,106.42). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

(*) Credit

(a) Amount reimbursable to Chicago.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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,

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.

Atlanta

East 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 1937.

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 payoff 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 Francisco

Yakima, 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.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

April 22, 1938.

SUBJECT: Holidays during May, 1938.

Dear Sir:

On Monday, May 30, Memorial Day, there will be neither transit nor Federal Reserve note clearing and the books of the Board's Inter-district Settlement Fund will be closed. The offices of the Board of Governors and of all Federal Reserve banks and branches will be closed on that day except the Federal Reserve Bank of Atlanta and its branches at Birmingham, Jacksonville and New Orleans.

The Board of Governors is further advised that holidays also will be observed during the month of May as follows:

Monday, May 2	Havana Agency	International Labor Day
Tuesday, May 10	Charlotte	Confederate Memorial Day
Friday, May 20	Charlotte	Mecklenburg Independence Day
	Portland	Primary Election Day
	Havana Agency	Cuban Independence Day

On the dates given the offices affected will not participate in either the transit or the Federal Reserve note clearing through the Inter-district Settlement Fund. Please include transit clearing credits for the Charlotte branch on May 10 and for the Charlotte and Portland branches on May 20 with your credits for the following business days.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-232

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

April 23, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZOEM - Treasury Bills to be dated April 27, 1938, and to mature July 27, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-233

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers, Wednesday, April 27, 1938.

The following summary of general business and financial conditions in the United States, based upon statistics for March and the first three weeks of April, will appear in the May issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

In March and the first three weeks of April industrial activity continued at about the same rate as in January and February. Distribution of commodities to consumers showed less than the usual seasonal increase and wholesale commodity prices declined further.

Production

Volume of industrial production showed little change from February to March and the Board's index, which is adjusted for the number of working days and for usual seasonal variations, remained at 79 percent of the 1923-1925 average. In the steel industry, output of ingots averaged 33 percent of capacity in March and continued at about this level in the first three weeks of April. Shipments of finished steel in March, as in other recent months, were at a somewhat higher rate than output. Automobile production, which usually expands sharply at this time of the year, showed little change from the low level of January and February, and output of tires and plate glass likewise remained at a low rate. In the lumber and cement industries there were considerable increases in output in March. At cotton and silk textile mills and shoe factories activity rose somewhat, while production at woolen mills declined following a rise in February. Declines were reported also for meat packing and sugar refining. At mines, where production decreased generally in February, output of bituminous coal and nonferrous metals continued to decline in March, while production of anthracite and crude petroleum increased somewhat.

Value of construction contracts awarded showed a considerable increase in March, according to figures of the F. W. Dodge Corporation. Awards for residential work, which had advanced moderately in February, increased sharply in March but were still 12 percent less than in March 1937. Contracts for other private work also increased in March, but remained considerably smaller than a year ago. The value of public projects showed an increase and was higher than last year.

Employment

Factory employment declined somewhat and payrolls showed little change from the middle of February to the middle of March, although increases are usual at this season. The number employed in the machinery industries decreased considerably further and at woolen mills there was also a substantial decline, while most other manufacturing industries showed moderate declines or little change. Employment on the railroads and in the public utilities declined somewhat further in March, while in other nonmanufacturing lines there was little change in the number employed.

Distribution

Sales at variety stores and by mail order houses increased seasonally in March, while sales at department stores showed less than the usual rise. The Board's seasonally adjusted index of department store sales declined from 88 in February to 86 in March and figures for the first three weeks of April indicate some further decline. Freight-car loadings showed little change from February to March, although a rise is usual at this time of the year. Shipments of coal declined substantially and miscellaneous loadings increased by less than the usual seasonal amount.

Commodity prices

Wholesale commodity prices generally declined from the middle of March to the third week of April. There were further decreases in prices of a number of raw and semifinished industrial commodities, and prices of some leading agricultural products also declined, reflecting in part seasonal influences. In the middle of April prices of some industrial materials advanced slightly from the lows reached earlier in the month.

Bank credit

During March and the first three weeks of April, total loans at reporting member banks in 101 leading cities declined further, reflecting a substantial reduction in loans to brokers and dealers in securities and also declines in commercial loans. Holdings of investments showed little net change, declining in March and increasing in April.

As a part of the Government's program for encouragement of business recovery, the Board of Governors reduced reserve requirements of member banks by about $750,000,000, effective April 16, and excess reserves correspondingly increased. As a part of the same program the

Treasury discontinued the inactive gold account and deposited about $1,400,000,000 of gold certificates with the Federal Reserve banks. Additions to excess reserves from this source will occur as the Treasury draws upon these deposits to meet current expenditures and the retirement of Treasury bills.

Money rates and bond yields

Yields on Treasury bonds declined from a level of 2.50 percent in the first half of April to 2.32 percent on April 22. The average yield on 3-5 year Treasury notes declined to a new low of 0.81 percent, which compares with the previous low of 0.92 percent in December 1936. The rate on three-month Treasury bills declined to virtually a no-yield basis. Other short-term open-market money rates remained unchanged in the first three weeks of April.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1938.

SUBJECT: Code Word Covering Commodity Credit Corporation Notes.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover an issue of Commodity Credit Corporation Notes:

NOWLUNA - Commodity Credit Corporation 3/4 per cent Notes of Series C, to be dated May 2, 1938, and to mature November 2, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Saturday, April 30, 1938.

The following ruling will appear in the Federal Reserve Bulletin.

Sale Of Securities Held In Account But Not Delivered Against Sale

In a case recently considered by the Board under Regulation T, the adjusted debit balance of a customer's general account exceeded the maximum loan value of the securities therein, and the account was "long" 100 shares of XYZ, a registered nonexempt security. On the day in question the customer sold 100 XYZ and instructed the broker not to deliver his "long" stock against the sale. This was the only transaction in the customer's account on that day. The question presented was whether any margin must be obtained because of the transaction.

The sale of XYZ stock with instructions not to deliver the stock held "long" in the account constitutes a short sale of the XYZ stock within the meaning of section 3(d)(3) of the regulation which provides that the adjusted debit balance of the account shall include:

> "the current market value of any securities (other than unissued securities) sold short in the account plus, for each such security (other than an exempted security), such amount as the Board shall prescribe from time to time in the supplement to this regulation as the margin required for such short sales, except that such amount so prescribed in the supplement need not be included when there are held in the

> account securities exchangeable or convertible within a reasonable time, without restriction other than the payment of money, into such securities sold short;".

In view of this provision, the current market value of the securities sold short should be added to the adjusted debit balance. Since the XYZ stock held in the account could be delivered at any time against the short position, however, "there are held in the account securities exchangeable or convertible * * * into such securities sold short." Therefore, it would not be necessary to add any "margin * * * for such short sales."

Section 3(d)(7) of the regulation provides that there shall be deducted from the adjusted debit balance:

> "the net proceeds of sale of any securities (other than unissued securities) sold for the account but for which payment has not yet been credited thereto."

The deduction made pursuant to section 3(d)(7) would, on the day of the short sale, exactly equal and offset the addition made pursuant to section 3(d)(3).

Accordingly, there would be no change in the adjusted debit balance of the account and, since there also would be no change in the maximum loan value of the securities in the account, the transaction would neither release margin nor require that margin be obtained.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Saturday, April 30, 1938.

The following ruling will appear in the Federal Reserve Bulletin.

Effect of Purchase and Sale of Same Securities
on Given Day

The Board recently considered a case under Regulation T in which transactions effected on Monday in a general account resulted in a requirement of $100 margin, and on the day following, Tuesday, a certain quantity of a particular stock was purchased and later in the day the same quantity of the same security was sold, resulting in a net profit of $150. There were no other transactions in the account on Tuesday.

The question presented was whether this purchase and sale could be treated, to the extent of $100, as a liquidation pursuant to section 3(e) of the regulation in lieu of a deposit of that amount of margin, and as also permitting a withdrawal of $50 on Tuesday pursuant to the second paragraph of section 3(b).

Sections 3(b) and 3(e) of the regulation read in part as follows:

"(b) General rule. - A creditor shall not effect for or with any customer in a general account any transaction which, in combination with the other transactions effected in the account on the same day, creates an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account, or increases any such excess, unless in connection therewith the creditor obtains, as promptly as possible and in any event before the expiration of three full business days following the date of such transaction, the deposit into the account of cash or securities in such amount that the cash deposited plus the maximum loan value of the securities deposited equals or exceeds the excess so created or the increase so caused.

"A transaction consisting of a withdrawal of cash or registered or exempted securities from a general account shall be permissible only on condition that no cash or securities need be deposited in the account in connection with a transaction on a previous day and that, in addition, the transactions (including such withdrawal) on the day of such withdrawal would not create an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account or increase any such excess.

*   *   *   *   *

"(e) Liquidation in lieu of deposit.* - In any case in which the deposit required by section 3(b), or any portion thereof, is not obtained by the creditor within the three-day period specified in that section, securities shall be sold or covering or other liquidating transactions shall be effected in the account, prior to the expiration of such three-day period, in such amount that the resulting decrease in the adjusted debit balance of the account exceeds, by an amount at least as great as such required deposit or the undeposited portion thereof, any resulting decrease in the maximum loan value of the securities in the account.

"* This requirement relates to the action to be taken when a customer fails to make the deposit required by section 3(b), and it is not intended to countenance on the part of customers the practice commonly known as 'free-riding' or 'three-day riding', to prevent which the principal national securities exchanges have adopted certain rules. See the rules of such exchanges and section 7(e) of this regulation."

The Board expressed the view that the purchase and sale of the same securities on Tuesday could be so treated. This follows from the fact that such purchase and sale would reduce by $150 any excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account. It seems proper to treat such reduction as consisting of two portions in the manner suggested.

As indicated in the footnote to section 3(e), that provision was not intended to countenance on the part of customers the practice commonly known as "free-riding" or "three-day riding", to prevent which the principal national securities exchanges have adopted certain rules. If the transactions on Tuesday were treated as indicated above, the liquidation in lieu of a deposit of margin would, of course, have to be considered in connection with such exchange rules.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-237

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 30, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZOIL - Treasury Bills to
be dated May 4, 1938, and
to mature August 3, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-238

STATEMENT FOR THE PRESS
BY
CHAIRMAN ECCLES OF THE BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

For immediate release May 3, 1938

Entirely false reports are being made daily in the press and over the radio purporting to recount what took place between Mr. Ford and myself during the recent meeting with the President. Because of the persistence and propaganda nature of these reports, I can no longer permit them to go unchallenged.

These reports are uniformly false in indicating that Mr. Ford and I discussed and differed with reference to governmental or other policies. The truth is that I had no discussion whatsoever with Mr. Ford during the entire meeting with regard to deficit-financing, the automobile business, or other subjects referred to in these accounts, nor did he undertake to engage in any discussion with me in connection with these or, for that matter, any other subjects of government or business. The conference was a most informal and friendly affair, at which there was no discussion of a financial or economic nature relative to government affairs.

My own participation was confined to giving to Mr. Edsel Ford and to Mr. Cameron, after the meeting had concluded and while Mr. Henry Ford was inspecting some of the White House rooms, two quotations which I commended as being worthy, particularly at this time, of their consideration and that of other business and financial leaders. Contrary to published reports, I had prepared no memorandum whatever for this meeting.

The two quotations to which I refer consisted of one from Macaulay's "History of England", Vol. IV, pages 261-264, illustrating the fallacious reasoning with regard to national debt that prevailed in England more than a century ago in connection with the British debt; the other, an extract from the volume, "Income and Economic Progress", pages 156-157, by Harold G. Moulton, published by the Brookings Institution, and dealing with the diversion of corporate surpluses to stock market and other speculation in the late twenties.

Except for some purely incidental conversation, that was the extent of my participation in the meeting.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 7, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZOUR - Treasury Bills to be dated May 11, 1938, and to mature August 10, 1938.

Very truly yours,

J. C. Noell

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 9, 1938.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of April, 1938.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
April 1 to 29, 1938.

Federal Reserve Notes, Series 1934

	$10	$20	$100	$500	$1000	$5000	Total Sheets	Amount
Boston	105,000	20,000	-	800	450	100	126,350	$ 12,129.60
New York	185,000	46,000	-	-	-	-	231,000	22,176.00
Philadelphia	90,000	25,000	-	-	-	-	115,000	11,040.00
Cleveland	52,000	45,000	-	-	-	-	97,000	9,312.00
Richmond	35,000	30,000	-	-	-	-	65,000	6,240.00
Atlanta	45,000	10,000	-	-	-	-	55,000	5,280.00
Chicago	110,000	35,000	9,000	1,600	-	-	155,600	14,937.60
St. Louis	30,000	20,000	-	-	-	-	50,000	4,800.00
Minneapolis	30,000	18,000	-	-	-	-	48,000	4,608.00
Kansas City	30,000	20,000	-	-	-	-	50,000	4,800.00
San Francisco	75,000	40,000	-	-	-	-	115,000	11,040.00
	787,000	309,000	9,000	2,400	450	100	1,107,950	$106,363.20

1,107,950 sheets @ $96.00 per M $106,363.20

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM R-241
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 12, 1938.

Dear Sir:

In a letter from this Division under date of February 19, 1938, (R-191) transmitting copies of the bibliographies and catalogues distributed and the principal addresses delivered during the National Appraisal Forum which was held in Washington on November 19 and 20, 1937, under the auspices of the Joint Committee on Appraisal and Mortgage Analysis, it was indicated that it might be several weeks before the proceedings of the Forum would be available. The proceedings have since been published, and, through the courtesy of the Secretary of the Joint Committee, sufficient copies of the proceedings have been obtained to furnish each Reserve bank with a set. Accordingly, there are being forwarded to you under separate cover two booklets containing the proceedings. It will be noted that one volume contains the proceedings of the general sessions and urban group meetings and the other the proceedings of the rural group sessions.

Very truly yours,

Leo H. Paulger

LEO H. PAULGER,
Chief, Division of Examinations.

TO VICE PRESIDENTS IN CHARGE OF EXAMINATIONS AT ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 14, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZPAX - Treasury Bills to be dated May 18, 1938, and to mature August 17, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

May 17, 1938.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of April, 1938.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-district Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF APRIL, 1938

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	35,140	2,126	37,266	$ 556.53	$ 270.92	$ 285.61
New York	99,299	---	99,299	1,482.94	1,039.78	443.16
Philadelphia	*10,058	2,159	12,217	182.45	256.35	73.90(a)
Cleveland	44,017	2,193	46,210	690.10	295.47	394.63
Richmond	42,682	2,147	44,829	669.48	184.14	485.34
Atlanta	55,177	2,124	57,301	855.73	333.51	522.22
Chicago	80,887	2,409	83,296	1,243.95	1,193.72	50.23
St. Louis	65,005	2,146	67,151	1,002.84	266.16	736.68
Minneapolis	29,065	2,184	31,249	466.67	172.16	294.51
Kansas City	61,193	2,140	63,333	945.82	259.18	686.64
Dallas	58,940	2,100	61,040	911.57	279.35	632.22
San Francisco	75,061	2,174	77,235	1,153.43	455.90	697.53
Board of Governors	476,813	---	476,813	7,120.75	12,275.62	---
Total	1,133,337	23,902	1,157,239	$17,282.26	$17,282.26	$5,228.77
						73.90(a)
						$5,154.87

(1) Based on cost per word ($.014934046) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies ($1,690.82) and wire rental ($10,584.80). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

(a) Credit - reimbursable to Philadelphia.

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*Philadelphia reported for March	72,217	
Should have reported	32,478	
Excess words reported for March	39,739	
Actual word count for April		29,797
Deducted account excess report for March	19,739	19,739
Number of words reported for April		10,058
Balance of excess words to be deducted by Philadelphia from actual word count for May . .	20,000	

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

May 17, 1938.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

SUBJECT: Holidays during June, 1938.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the following holidays will be observed by Federal Reserve banks and branches during the month of June:

Friday, June 3	Richmond	Louisville Memphis	Confederate Memorial Day and Jefferson Davis' Birthday
	Atlanta Birmingham Jacksonville Nashville New Orleans	Dallas El Paso Houston San Antonio	
Tuesday, June 14	Philadelphia Pittsburgh		Flag Day
Friday, June 17	Boston		Bunker Hill Day

On the dates given the offices mentioned will not participate in either the transit or the Federal Reserve note clearing through the Inter-district Settlement Fund. Please include transit clearing credits for the offices affected on each of the holidays with your credits for the following business day. No debits covering Federal Reserve note shipments for account of the head offices concerned should be included in your note clearings of June 3, 14 and 17.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1938.

Dear Sir:

At most of the Federal Reserve banks there are arrangements approved by the Board of Governors whereby small, personal loans may be made to employees in meritorious cases at reasonable rates of interest. These arrangements have been made at various times and under varying circumstances. Consequently, no uniformity exists among the banks as to how, if at all, funds available for such loans and the loans made therefrom are reflected in assets and liabilities as reported on Form 34 and as to whether earnings and losses on loans to employees are currently reported on Form 95 and Form B-9, respectively.

It is believed that uniformity of accounting in this connection is desirable, and there is suggested for your consideration an arrangement under which loans to employees, upon proper authorization and within limits approved by the Board as to the aggregate amount of such loans outstanding at any one time, would be made from regular bank funds and reported on Form 34 in the item "Sundry items receivable". Earnings on such loans would be included currently on Form 95 in "All other" earnings, and any losses reported in the monthly statement of profit and loss items, Form B-9.

It will be appreciated if you will advise the Board whether you see any objections to the adoption at your bank of the arrangements and accounting procedure outlined above for handling loans to employees.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT DALLAS AND SAN FRANCISCO

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 23, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZPIK - Treasury Bills to be dated May 25, 1938, and to mature August 24, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-247

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release May 23, 1938.

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. St. George Holden, President of the St. George Holden Realty Company, San Francisco, California, as Deputy Chairman of the Federal Reserve Bank of San Francisco for the remainder of the current year.

R-248

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Wednesday, May 25, 1938.

The following summary of general business and financial conditions in the United States, based upon statistics for April and the first three weeks of May, will appear in the June issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Industrial production declined in April, reflecting chiefly reduced activity in the cotton textile and lumber industries. Distribution of commodities increased less than seasonally but continued to be somewhat in excess of production. Commodity prices showed a further decrease.

Production

In April volume of industrial production, as measured by the Board's seasonally adjusted index, was at 77 percent of the 1923-1925 average as compared with the level of about 79 percent maintained during the first quarter of the year. The decline reflected, chiefly, considerable reductions in output at cotton textile mills and lumber mills, where there had been moderate increases in production in March. In most other manufacturing industries changes in activity were largely seasonal in character. Output at steel mills continued at around 33 percent of capacity and in the automobile industry showed little change, amounting in April to about 40 percent of the volume of a year ago. In the first three weeks of May production of steel and automobiles was at a lower rate than in April. At mines there was a considerable decline in output of anthracite in April, while bituminous coal production showed somewhat less than the usual seasonal decrease. Crude petroleum production continued in large volume.

Value of construction contracts awarded, which had increased considerably in March, showed little change in April, according to figures of the F. W. Dodge Corporation. Awards usually increase somewhat further in April. In the first four months of this year private residential building was about one fourth less than in the corresponding period last year, while other private work, particularly industrial and utility construction, was only about one half as large as a year ago. Awards for public projects were somewhat larger than last year.

Employment

Factory employment and payrolls declined from the middle of March to the middle of April, and the Board's seasonally adjusted index of employment was at 79 percent of the 1923-1925 average as compared with 82 in March and 84 at the beginning of the year. The number employed at automobile factories declined sharply and there were further substantial decreases in the steel and machinery industries and at railroad repair shops. Smaller declines were reported in most other manufacturing industries. Employment at mines and on the railroads also decreased, while in trade there was some increase in the number employed, reflecting partly increased business at the Easter season.

Distribution

Distribution of commodities to consumers showed less than the usual seasonal rise in April. The Board's adjusted index of department store sales was 83 in April compared with 86 in March and 90 at the beginning of the year, and figures for the first half of May indicate a further decrease.

Freight-car loadings also declined from March to April, reflecting largely reduced shipments of miscellaneous freight, and were about 30 per-cent less than in April 1937.

Commodity prices

Wholesale prices of industrial commodities continued to decline from the middle of April to the third week of May and prices of agricultural products also decreased somewhat further. Steel scrap, copper, and rayon showed considerable declines and there were reductions in prices of some finished industrial products. It was announced that prices of most finished steel products would be unchanged for third quarter delivery.

Bank credit

Total loans and investments of reporting member banks in 101 leading cities showed little change during April and the first half of May. Hold-ings of United States Government obligations increased somewhat, while holdings of other securities and loans declined. Adjusted demand depos-its in leading cities increased during the period as a result of expendi-tures by the Treasury from its balances with the Reserve banks. Interbank deposits also increased substantially.

Member bank reserves increased further, reflecting principally Treasury disbursements from its deposits at the Reserve banks, including retirement of $50,000,000 of Treasury bills each week.

Money rates and bond yields

Yields on Government securities declined slightly further in the four weeks ending May 21 to an average for longer-term Treasury bonds of 2.28 percent. The average yield on 3- to 5-year Treasury notes declined to a new low of 0.73 percent. The rate on three-month Treasury bills continued at record low levels, and other open-market money rates remained unchanged.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

May 24, 1938.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

SUBJECT: Monthly Report of Bank and Public Relations Activities.

Dear Sir:

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

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-249-a

May 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 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 reports contain the following mention of the attitude of bankers toward the reduction in reserve requirements, as of April 16:

Boston: "...reducing reserve requirements did not come in for comment at any of the banks, although one or two of the banks are among those which complained when reserves were increased."

New York: "...little or no comment was made on the recent change in reserve requirements."

Philadelphia: "Since the reduction, several bankers stated that it was well timed and in their particular cases relieved the bank of the necessity of borrowing to meet demands. One banker, however, stated that the reduction was too small to bother with and that he was not considering it."

Cleveland: "There have been few comments with respect to the recent reduction in reserve requirements. In some cases it has released funds for employment, but in the majority of cases it is merely regarded as a favorable gesture."

Chicago: "...one banker stated that he hoped reserve requirements would be further reduced so that his bank would not have to borrow."

St. Louis: "The recent reduction in reserve requirements was mentioned by several member banks, the large banks being at somewhat of a loss to know what to do with the released reserves and others voicing the opinion that reserve requirements should be returned to the percentages in effect before any increases were made. A few nonmember bankers commented on the release of excess reserves which they felt would lead to inflation."

Minneapolis: "Several (member bankers) expressed themselves as pleased with the recent reduction in reserve requirements."

Kansas City: "Country bankers seem not greatly impressed with the reduction in reserve requirements. The opinion is expressed that such action is erratic and there is no way of telling when the requirement may again be raised."

Dallas: "A few (bankers) expressed curiosity as to the cause of the recent reduction in reserve requirements, stating that their own cash positions were such that they had ample funds for lending but that their customers who are entitled to credit are not in need of loans."

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

Boston

During April 39 member banks and 21 nonmember banks were visited. With few exceptions these banks are located in some of the smaller industrial cities and towns of Connecticut and Massachusetts.

The employment of factory labor in sections of the district covered by this report is at the rate of from two to four days a week per employee, and instances were reported of individual plants contemplating further curtailing employment, and of others with a surplus of help to which employment is being given in order to hold organizations intact. In normal times many of the larger concerns located in the sections visited will give employment to a number of residents of nearby towns within a radius of twenty miles or more, and often as much as 40% of the total weekly payroll of a factory town will be spent or banked in adjacent communities.

The note cases at most of the banks are full of small notes payable in weekly or monthly installments and evidencing loans to shopkeepers, professional men, municipal employees and general workers. Bankers say that there is no lag in the collection of this paper, also that periodic payments into Christmas Savings Accounts and Tax Club Accounts are being kept up and at the same time savings deposits are on the increase at a few of the banks. Officers of savings banks advise that there is little or no increase in the number of mortgage accounts that show a tendency toward delinquency in amortization, interest and tax payments.

Many bankers stated that practically the only demand for bank credit in their communities is coming from the small borrower of the type mentioned and that this demand is gradually lessening. Some of these bankers profess to see in their dealings with these small borrowers a reflection of a general healthy attitude prevailing in their

Boston (continued)

communities under present economic conditions - with lessened incomes their people have curtailed their wants, are borrowing less, are paying off their obligations and are setting aside a little upon which they can draw should conditions affecting them directly improve less rapidly than they hope for. In towns of the type visited the retail merchant is said to complain the loudest.

At most of the banks bond lists are off from five to twenty per cent according to the volume of Government securities held. A number of the banks have traded maturities in Governments in recent markets and taken some profit; others have sold their short-term Governments and declare themselves to be out of the investment market until such time as the general list shows substantial improvement. At practically every bank visited someone raised the question as to how long the market for Governments will hold at present levels.

The recent action of the Board of Governors in reducing reserve requirements did not come in for comment at any of the banks, although one or two of the banks are among those which complained when reserves were increased. While the policies and activities of the various governmental agencies came in for some complaint, no criticism was made of the administration and policies of the Federal Reserve System nor was any dissatisfaction expressed with the manner in which the relations of the Federal Reserve Bank of Boston with its member banks are conducted.

Reception at the nonmember banks was cordial in every instance. There is no interest in Federal Reserve membership on the part of these banks, although the subject was referred to occasionally by some officers who had in mind the requirement which will affect some member banks desiring to continue as insured banks after 1941.

New York

Broome, Chenango, Cortland, Delaware, and Otsego Counties, New York

Only nine of the fifty commercial banks in these counties show an appreciation in their bond accounts, the amounts in most instances being small, ranging from a fraction of 1 per cent to 4 per cent of the total book value. Forty-one show depreciation varying from 1 per cent to as high as 17 per cent in the case of one of the smaller banks, the average for the group being 4 to 5 percent. The percentages of United States Government obligations - direct or fully guaranteed - vary from 18 to 85 per cent of the total lists, with a group average of 45 per cent. The large investments in United States Government issues have

New York (continued)

helped to minimize net depreciation in the bond accounts of these banks because of the continued high market values of such securities. Some bankers, however, complain that the low yields have adversely affected income.

Loans and discounts of all commercial banks (totaling approximately $36,600,000) are about $600,000 higher than a year ago, twenty-nine of the fifty banks in this group showing slight to moderate increases. Banks in the larger centers have been able to add to their loan portfolios by increased business in personal and automobile loans and by making modernization and mortgage loans under the National Housing Act. One bank in Delaware County, where there has been little demand for loans of the latter type, recently purchased $150,000 Title II Federal Housing mortgages on a 5 per cent basis from a bank in Westchester County. There is, however, little inclination to grant Title II loans up to 90 per cent of the value of the property. Since the reenactment of Title I few applications for modernization loans have been received by banks in this area.

Binghamton has not felt the depression as severely as other places, largely because of its diversified industries and the fairly steady employment afforded. Recently, however, merchants in the shopping district have noticed a slight lull in their business which they attribute to decreased employment in the shoe factories. The same condition is reported by the merchants in Endicott. The Binghamton Chamber of Commerce reports that retail sales from January to March this year were about 5 per cent below the same period a year ago but this is thought to be due in part to the fact that Easter came nearly three weeks later than in 1937. The volume of wholesale trade is reported to be about 5 per cent less and collections 11 per cent less than during the same period in 1937. The latest figures available show a 1 per cent increase in employment but a 19 per cent decrease in payrolls in January 1938 as compared with January 1937, largely as a result of payroll reductions and part time employment in the shoe factories.

Second in industrial importance in these counties is the city of Cortland which has a diversity of industrial concerns manufacturing wire screen, nails, wall paper, corsets, hardware specialities, metal products, fishline and cord, typewriters, and other products. The latest available figures on employment as of April 12, furnished by the Chamber of Commerce, show approximately 3,700 people employed in local industrial plants. The secretary of the Chamber of Commerce estimates that business in the plants is off about 10 per cent now as compared with the same date in 1937.

In the rural sections the production of milk is the principal

New York (continued)

farming activity although the farmers in Cortland County also grow potatoes and cabbage, and those in the western part of Delaware County raise some cauliflower. The hay crop in this area was poor in 1937 but the farmers were able to purchase feed during the past winter at fairly low prices which have continued up to this time. Milk prices were reasonably good during this period but have recently dropped to lower levels; however, the consensus of opinion among bankers in the farming area is that the farmers are making a little money, although some fear is expressed that prices for milk may go down as low as $1.25 per hundred this summer as compared to the winter prices ranging from $2.50 to $3.00.

Monmouth County, New Jersey

The statement was made that some farmers are reducing their acreage under cultivation by 10 per cent as compared with last year, and that those making such reduction will receive payment from the Govgernment under the crop control program. One banker pointed out that some of the more progressive farmers, especially around Freehold, have realized the danger of concentrating their activities entirely in growing potatoes as the principal money crop, and have branched out in recent years to include other lines such as growing wheat and corn, raising poultry, operating small dairies, etc.

Reference was made to the difficult real estate situation in Asbury Park and vicinity, and to the fact that it is practically impossible at the present time to move properties that are held for sale by institutions. Two local building and loan associations were unable to meet applications for withdrawals and have been taken over by a new association with shareholders' funds insured up to $5,000. It is said that there have been several instances of individuals and corporations buying up shares of stock of their building and loan associations from investors at 40 to 50 cents on the dollar, and then turning in the shares in payment on their mortgages.

Philadelphia

North Central Pennsylvania and Southern New Jersey

Conditions in the area visited reflect a decline in business activity from the levels prevailing a year ago. While there is a substantial increase in the number of unemployed, the concerns appear to have endeavored to spread the work as much as possible by reducing the length of the work week rather than the number of employees. Returns for agricultural products during the past twelve months were said to have been

Philadelphia (continued)

poor because of low prices and crop failures. Dairying continues to produce a satisfactory year-round income.

Banking conditions have changed considerably since these counties were last visited. Whereas previously the investment accounts of most of the banks reflected appreciation, depreciation now exists, and in many cases causes serious capital impairments. All bankers are concerned about security prices but many of them are concerned as well with the attitude of the supervisory authorities toward capital impairments. In many cases the directors have previously supported these institutions to the limit of their ability and will be unable to do more, and it is doubtful if additional capital can be raised to strengthen many of the institutions affected.

Deposits are reflecting a downward trend, partly because of farm demand and partly because of poor business conditions. Considerable attention is being paid to granting personal loans and many banks are actively supporting the F. H. A. program.

The trend of deposit interest rates is downward. In New Jersey the maximum allowable is 2 per cent but many banks pay but 1½ per cent, while others pay the rate only on the first $1,000. and 1 per cent on amounts beyond that. Other institutions both in Pennsylvania and New Jersey are considering reducing the rates paid. The prevailing rates on loans are 5 per cent on secured and 6 per cent on unsecured loans. Larger commercial lines are able to obtain better rates on a competitive basis, however, as are municipalities and counties.

Prior to the reduction in reserve requirements, comments were received that requirements were too high. Since the reduction, several bankers stated that it was well timed and in their particular cases relieved the bank of the necessity of borrowing to meet demands. One banker, however, stated that the reduction was too small to bother with and that he was not considering it.

The cashier of a National bank, the condition of which has been subject to considerable public comment, stated that funds were being withdrawn and deposited in safe deposit boxes. When this officer attempted to explain about deposit insurance to one such customer, he received a reply that many people had been of the opinion that banks, members of the Federal Reserve System, could not close and that depositors could not lose money but, having seen this happen many times prior to March, 1933, they now have their doubts regarding the F. D. I. C.

Several bankers commented upon what they termed the severity of the National bank examiners in classifying loans. This applies particularly to classifying as slow, loans current as to interest, on which regular reductions are being made, as a large total of loans so classified brings criticism from the Comptroller's office. Many of these

Philadelphia (continued)

bankers are officers of banks in farming sections where longer maturities are the rule, rather than the exception, because of the character of business financed. Some of these officers also commented on the fact that the last four examinations had been conducted by different examiners, which precluded any opportunity for familiarity with the worth of borrowers by the examiner.

The officers of two State banks in New Jersey stated that the supervisor of banks had objected to their banks having a concentration of investments in United States Government obligations.

The industrial outlook for the near future is very uncertain. There is a dearth of the customary long-term commitments for goods and virtually no buying of equipment or planning of plant expansion. Purchases of raw materials and semi-finished goods by producers are restricted only to current requirements which are much smaller than they were at this time last year. While not widely prevalent, there are numerous cases which evidence an existence of friction between labor and management.

Output of farm products in 1937 was substantially greater than in the previous year. Receipts from the sale of agricultural commodities this year, however, have declined somewhat, owing chiefly to a sharp drop in prices of grains, potatoes and certain other produce including fruits. Quotations for dairy products, which constitute one of the major sources of farm income, have been fairly well maintained.

The burden of public relief in one form or another has increased, largely through reduced employment in industries. Figures covering the four Pennsylvania counties indicate that the number of persons on direct relief about the middle of April was two-thirds greater than at the same time last year. Expenditures in this period rose about 60 per cent. Increased activity on WPA projects and payment of unemployment compensation has lightened the direct relief load somewhat during the past two months.

Cleveland

The primary interest of bankers in all sections visited continues to lie in the depreciation in bond accounts and the attitude of supervising authorities in respect to handling of such depreciation. It appears that the practices of various supervisors are far from uniform and there has been criticism of the fact that the policy of national bank examiners in the Third and Fourth Federal Reserve Districts is not substantially the same. In the Fourth District, the policy of national examiners appears to require a write-off of 50 per cent of current depreciation, except in Group One; in the Third District, it is understood that national bank examiners are making no such requirement. We understand that the Pennsylvania State Department has followed a practice essentially the same.

Cleveland (continued)

In the State of Ohio, it is the present practice of State examiners to require the write-off of all depreciation on stocks and defaulted bonds, and to set up a reserve out of profits to cover depreciation in other issues than those in Group One, where the undivided profits account will stand the charge. In other instances, the payment of dividends is discouraged until the required reserve is built up.

One western Pennsylvania banker has offered the suggestion that values of investments be determined by a method similar to that used by a number of insurance companies in 1932.

There have been few comments with respect to the recent reduction in reserve requirements. In some cases it has released funds for employment, but in the majority of cases it is merely regarded as a favorable gesture.

What demand for credit exists appears to be primarily in the agricultural districts and is somewhat seasonal in nature. In a few scattered instances, banks are selling investments in order to meet loan demand. There are continued complaints of competition of Government loan agencies in the agricultural sections, as well as the competition of private capital seeking agricultural loans.

In the smaller centers, retail business is discouraging and merchants are reported afraid to replenish stocks under present conditions. Savings deposits continue to be drawn upon to meet current expenses.

Richmond

During the month of April visits were made to 65 member banks and 49 non-member banks, and in addition one or more representatives attended 11 meetings of State bank association groups, county clearing house associations, and other bankers' meetings.

Bankers in all sections continue to report light demands for loans and complain of the difficulty of investing funds on a profitable basis.

While there have been few changes in the par list in the Fifth District for several years, some member banks in the Carolinas which are adjacent to non-par institutions remark on the unfairness of the present situation whenever they are visited.

In the cattle section of Virginia and West Virginia cattle are out on the grass two or three weeks earlier than average. In the fruit district of the Shenandoah Valley section of Virginia and West Virginia there has been much apprehension as to the condition of the new peach and apple crops resulting from the severe cold weather during the latter

Richmond (continued)

part of April. In the lower valleys fruit was reported as badly damaged, but in the higher orchards the damage was less severe, while east of the mountains most of the fruit, both apples and peaches, was sufficiently advanced to withstand the cold, which was not so severe. Over many of the agricultural sections of this district there is a very noticeable shortage of rain.

While there is a general belief that some form of control over the tobacco crop is desirable, there is in some sections dissatisfaction with acreage allotments.

There has been a further slowing down of activity at cotton mills as the result of the accumulation of inventories. It appears, however, that inventories of wholesale dry-goods concerns, which were high last spring, have been reduced to normal proportions.

Bankers in Charleston, West Virginia, report that there is now more unemployment in Charleston and the surrounding territory than at any time during the past several years, that the coal mines are operating only about two days a week on an average, that the pay roll of one of the largest chemical manufacturers is about 80% of last October, that a company normally employing several hundred men and making thirteen products for automobile manufacturers has shut down, and that a large glass plant is operating only two out of fifteen furnaces.

At Huntington, West Virginia, the railroad shops, which normally have a force of 2,500, are now employing between five and six hundred, as compared with 1,500 a year ago. Two other companies which manufacture railroad cars and steel rails and normally employ around 1,200 have no orders on hand and are employing only skeleton forces. A large glass company employing 900 is operating 80%. However, two other industrial companies employing about 430 are both operating full time.

Atlanta

Conventions of Florida Bankers Association and Georgia Bankers Association

The forty-fifth annual convention of the Florida Bankers Association was held at Hollywood, Florida, on April 3, 4, and 5, with an estimated attendance of 350. The Association went on record as being in favor of discontinuing Postal Savings at all points where adequate banking facilities are available.

The convention adopted a resolution which set forth and emphasized the definite contrast in the quality of insurance afforded by the Federal Deposit Insurance Corporation and the insurance afforded by the Federal

Atlanta (continued)

Savings and Loan Insurance Corporation. The resolution urged members of the Association to give the widest possible circulation to the differences between the two forms of insurance.

Birmingham, Alabama

It was reported that business activities in Birmingham had been fairly well maintained during the past several months. The bankers interviewed stated that the operations of the Tennessee Coal, Iron & Railroad Company (a United States Steel Corporation subsidiary) were currently at a rate substantially higher than the average rate for the industry in the country as a whole. The sustained activity in the iron and steel industry has had a favorable effect on other allied industries, such as coal and iron ore mining. Industrial employment has been fairly well maintained, with a beneficial effect on business conditions generally. Demand for loans is regarded as unsatisfactory.

Chicago

Calls were made during the month of April on 124 member and 10 nonmember banks. The majority of the banks in the smaller communities report some increased demand for local loans, due to borrowings by farmers for their seasonal needs, for holding corn, or for purchasing farm implements. In practically all of the agricultural communities farmers are reported holding corn and in some cases their cattle for better prices; in the Upper Thumb district of Michigan a considerable portion of last year's bean crop is being held. A few banks have installed industrial loan departments and report a satisfactory experience. One bank states its local loans are twice that of a year ago; another reports loans at a new high for six years.

Deposits in many cases show reductions since the March 7 call. A number of banks have recently reduced the amount of interest paid on time deposits, while one has discontinued the use of certificates of deposit.

In a few cases bond portfolios still show an appreciation. Generally, however, there is a depreciation and in some instances the bond account is giving considerable concern.

Some evidences of hoarding are indicated. Bankers who mentioned this stated that while some money was going into safety deposit boxes, they did not believe this was being done to a great extent and did not attach a lot of significance to it, simply reporting it as a fact. One bank said that some of its customers are looking over the bond portfolios of insurance companies, in some cases taking the cash surrender values of their policies. Another banker reported that he had seen no evidence of money being taken to safety deposit boxes, but felt that were it not for

Chicago (continued)

the insurance of deposits a great deal of this would be done.

No unfavorable comment with respect to the services of the Federal Reserve bank was heard. However, one banker stated that he hoped reserve requirements would be further reduced so that his bank would not have to borrow. One bank advertises that it is the only member bank in the county.

Bankers interviewed who are not now using our Transit Department stated that their reason for this is the fact that the correspondent banks do not require segregation of items and give them immediate credit. Nearly all of these volunteered the information that they realize when their balances with their correspondents are reduced a service charge will be made, and at that time they will send their items to us. One banker reported that his city correspondent had called on him recently and made the suggestion that he send more of his items to the Federal Reserve bank, as his balance was not profitable. Some criticism was made of competition from the Production Credit Corporation. Reference was made to criticism of examiners on used-car loans and so-called "capital loans."

In general, bankers appear to be concerned about -

1. Low return on earning assets.
2. Bond depreciation.
3. Requirements of supervisory authorities regarding chargeoffs.
4. Competition of Government agencies.

In the manufacturing towns very little change is reported in industrial activity from a month ago. In Rockford, Illinois, the furniture plants are doing practically nothing, while some of the machine tool factories have been kept going by export orders. In Bay City, Michigan, about fifty per cent of the labor last year was employed in the automotive industry, and while there is very little activity reported in such plants at present, some of the other plants in the city have been operating on a more satisfactory basis and Bay City apparently has not been affected as much by the recession as some other Michigan points. At Saginaw, Michigan, also about half of the labor last year was employed by suppliers of automotive parts; other industrial plants in some instances are more active, but business is reported very quiet with retail sales materially lower.

There is a better feeling generally in agricultural communities despite the lower prices for farm products. However, in practically every point heard from the farmers are very much opposed to the new AAA program.

St. Louis

During the month our officers and field representatives visited 184 banks, of which 47 were in Arkansas, 30 in Illinois, 24 in Indiana, 4 in

St. Louis (continued

Kentucky, 21 in Missouri, 2 in Mississippi and 56 in Tennessee.

The volume of mercantile business in the northern portion of the Eighth District shows no perceptible change from that of the past few months. Here and there some acceleration is noted, but this is invariably due to purely local causes, such as oil discoveries in Southern Illinois which result in considerable business activity. After the close of the Easter Holiday trade, buying generally has been based solely upon actual present needs, with no tendency to anticipate possible future requirements.

As mentioned last month, merchants are endeavoring to reduce inventories, but largely in a systematic manner. Such price concessions as are made to induce buying have not been sufficiently drastic to create any disturbing effect.

It is noted that throughout the district the purchasing power of those engaged in agricultural work is now in the ascendency, though this spending is somewhat restricted owing to decline in prices paid for farm commodities.

Industrial employment continues at the low levels reached in the latter part of 1937.

In the agricultural sections, some expansion has taken place in local loans made largely to meet seasonal needs. Most banks are restricting such advances to nominal sums, in view of prices paid for farm commodities. Present indications give promise of large harvests of the principal grain crops this season. In certain larger country communities there is evidence of renewed interest in FHA loans, but for the most part local needs of that kind have already been cared for.

Regarding investments in securities for earning purposes, the tendency on the part of country banks is to dispose of present holdings that command a high premium, and to re-invest at least a portion of the proceeds in similar securities that can be purchased at or near par. Little interest is manifested by country banks in securities other than those of the Government or such as are government guaranteed.

One Illinois national bank member recently discontinued the use of our par check collection service for the reason that the business had been solicited by another member bank in the State which only required one letter for all classes of items whereas three were required by us. This banker did not seem to be wholly satisfied with the program and when asked if he would again make use of the F. R. B. for check collections in the event the rules as to sorting and credit were modified, he replied that he would very seriously consider the matter as he liked the prompt and efficient manner in which cash items were handled by this bank. Some other

St. Louis (continued)

member banks also feel that it is easier to comply with the requirements of commercial correspondents than with those of the reserve bank, but on the whole such banks are in the minority.

Two special visits were made to nonmember Missouri banks which had requested that they be removed from the par list. After advantages of remaining on the par list were fully explained, one bank agreed to remain and the officer interviewed in the other bank agreed to bring the matter before his board of directors for further consideration.

The recent reduction in reserve requirements was mentioned by several member bankers, the larger banks being at somewhat of a loss to know what to do with the released reserves and others voicing the opinion that reserve requirements should be returned to the percentages in effect before any increases were made. A few nonmember bankers commented on the release of excess reserves which they felt would lead to inflation.

In discussing membership with nonmember bankers generally, it seems that the loss of exchange revenue, the giving up of branches which are profitable, and the fact that they are now operating without membership, are the main drawbacks to applying for membership in the System. One of our officers, however, feels that many of these bankers in speaking of exchange include not only revenue from exchange on cash letters, but fees on non-cash items and a service charge for cashing out of town checks over the counter. If they would go to the trouble of really analyzing the exchange account they would doubtless find that the amount actually received from exchange on cash letters would be comparatively small. Some nonmembers may consider membership when their earnings, exclusive of exchange revenue, justify it. In discussing membership with nonmember banks, it was found that many of them lean toward nationalizing rather than possible membership as a State bank.

Minneapolis

North Dakota Group Meetings

Mr. Adam Lefor, State Examiner of North Dakota, spoke at the Valley City meeting. He told of the banking conditions as they prevailed at the present time and told the State bankers that they could not look to the Reconstruction Finance Corporation for assistance in taking care of their bond depreciations. He told of being in Washington for the purpose of attempting to keep a number of banks open which the Federal Deposit Insurance Corporation contemplated closing. He stated he was successful in obtaining a deferment until after the 1938 crop season for thirteen of the sixteen banks in question.

The bankers were very enthusiastic over crop conditions this year for it is the first time in many years that the farmers have had subsoil

Minneapolis (continued)

moisture sufficient to germinate the seed. Conditions in North Dakota, particularly the western section, have been deplorable for the last seven or eight years. Nevertheless, despite this fact, the farmers have started out this year with renewed hope and determination. The spirit shown by the farmers and the bankers is almost beyond comprehension. They do feel, however, that if a good crop is harvested, wheat prices will drop to between 50¢ and 60¢, but even if the price does fall below 50¢, the morale of the farmer as a whole will be greatly improved if a crop is had.

North Dakota possibly is the most exchange-minded state in the Union and for that reason, we have no North Dakota state member banks. Conditions, as I have heretofore stated, have been particularly deplorable in North Dakota, and the many small banks in that State could not exist if they did not charge exchange.

Northeastern South Dakota

There are no prospects for new buildings nor much in the way of repairs or remodeling of homes or farm buildings throughout the district visited; quite a few farms have been abandoned, and a return of normal rainfall and good growing conditions must come soon or the farmers will be forced to move away in increasing numbers in the poorer parts of the territory visited.

Northwestern Wisconsin

A matter of much concern to many of the bankers visited was the depreciation of railroad securities. Several of the bankers frankly stated that this depreciation, on the present basis, would more than wipe out their earnings for this year. Other bankers expressed keen regret that they had not reduced their holdings of railroad issues before prices declined.

Much of the territory visited is still undeveloped, and some of the banks here have a good local demand for money. One banker stated that he would be glad to receive funds from outside his trade territory temporarily so he could meet the local demand. In other sections, bankers are looking for a good outlet for their funds. In many instances, bank deposits are about the same as a year ago, although there are some variations.

An interesting feature of this trip was visitation of the so-called offices or stations which banks in Wisconsin are permitted to operate. In one case, a bank station was operated in the rear of a grocery store, the station consisting only of a teller's window and a small bank safe. In another town, the station occupied a part of the space in a meat market and it was somewhat of a shock to see the butcher wrap up a package of meat for a customer and then step across the lobby to a teller's window and receipt for a bank deposit. In still another town, the banker also acted as postmaster, both the bank and the post office being housed in one small room.

Minneapolis (continued)

In this instance, the banker explained that this was a very convenient arrangement for him because if a customer failed to meet his obligations, it was easy to contact him when he called for mail. These offices or stations apparently are satisfactory to the communities they serve and in some instances at least are being operated at a substantial profit.

Interest rates on chattel mortgage loans range from 6% to 8%, averaging about 7%. Very few banks are making real estate loans in this section at present.

Many of the banks feel that they are making satisfactory progress at this time. A national bank in Hayward reported that they had paid dividends of 122% in the thirteen years they have been in existence. Insurance commissions are a source of considerable revenue for some banks.

Potatoes are being raised in quantity in some sections, and it is interesting to note that some potato raisers, after their season is over in Wisconsin, go to Florida where they raise another crop during the winter. In this way they are busy during the entire year.

Northwestern Minnesota

With but a few exceptions the banks visited did not show any considerable bond depreciation. The majority of the banks have invested their funds in United States Government obligations and high grade municipalities. They are highly elated over the increased price of United States Government bonds. Some of the bankers, however, are fearful that in the not too distant future United States Government bonds will be considerably lower.

Kansas City

The favorable agricultural outlook continues to be the chief topic of interest in this District. Rainfall has been uniformly satisfactory, precipitation for the first three months of the year averaging approximately 35 per cent above normal. The mountains of Colorado are full of snow and plenty of water for irrigation purposes is in prospect. In a physical way this District is in better condition than it has been for years.

Bankers in Nebraska report that many farmers apparently are not going to take advantage of the new agricultural bill and that many who wish to cooperate are experiencing difficulty in adapting it to their farm program. Some Oklahoma bankers report that farmers in their communities are producing more hogs and cattle than in recent years.

This bank recently computed operating ratios for member banks in this District. Copies of this report, with the ratios for the particular bank appearing on it, were sent to each member bank. The response was more than

Kansas City (continued

expected and the many letters received bring to light many highly significant matters. These letters show there is widespread interest in this sort of thing and that many banks have done a good deal in the past in the way of computing their own ratios. Naturally a diversity of accounting practice in handling certain matters has caused some confusion. The cardinal weakness of these sporadic individual computations has been that there was little in the way of outside experience or achievement to serve as a basis of comparison. Studies such as this bank made fill this need.

One thing of special interest these letters show is that many bankers seem to assume their achievement is satisfactory when their own ratios conform closely to the averages given in the report. After all, any average is a mediocre standard of performance and is a low mark at which to shoot. It might be helpful in the future to compute another set of ratios based on the achievement of banks that are above the average.

There appears to be a tendency on the part of some banks to take profits on their government securities. In fact, some bankers say they have sold all of their holdings. In most cases the intention is to repurchase at lower prices. Country bankers seem not greatly impressed with the reduction in reserve requirements. The opinion is expressed that such action is erratic and there is no way of telling when the requirement may again be raised.

No change in general business conditions in this District is apparent. Bankers and men of affairs have little faith in the lasting benefits of the proposed spending program. Construction work is confined mostly to public projects and F. H. A. activities. It is reported that more than a half of the applications for low-priced homes come from speculative builders. Competent opinion is that much depends on how these speculative structures sell. Real estate men tend to the opinion they will not sell satisfactorily until employment conditions improve.

Dallas

Five member banks and three nonmembers were visited in the extreme western zone of Texas served by our El Paso Branch. Cotton, cattle and oil are the chief economic supports of this part of the district.

Most of the cotton farmers in this semi-arid area signed the government's acreage reduction agreement, and those in the irrigated section (El Paso County) believe they will benefit from it through heavy per-acre production resulting from irrigation, heavy fertilization and intensive cultivation. On the other hand, the producers in the unirrigated Pecos Valley region view with considerable pessimism their prospects for breaking even on this year's operations. They were expecting a required acreage reduction of approximately 40 per cent, but when the allotments were announced

Dallas (continued)

they called for a much heavier reduction, according to information given our representative.

The physical condition of cattle and ranges in this section of Texas was reported to be better than at any time since 1920.

Oil production is being held at a steady level, although drilling operations have been almost entirely suspended, due to the uncertainties of the present oil situation.

None of the visited banks complained of Federal reserve policies or services. A few expressed curiosity as to the cause of the recent reduction in reserve requirements, stating that their own cash positions were such that they had ample funds for lending but that their customers who are entitled to credit are not in need of loans.

All member banks in the district's reserve cities were interviewed during the month in regard to the contemplated discontinuance of our reserve city clearing house plan of collecting checks and remittance drafts. An alternative plan offering a simpler method of effecting such collections was explained to these banks and received their unanimous approval. As these interviews were confined to technical discussions of transit operations they developed no information of general interest regarding other aspects of Federal Reserve relations or developments in local economic conditions.

San Francisco

Lompoc Valley, Santa Barbara County, California

This is a prosperous valley about 50 miles north of Santa Barbara, the principal industries of which are livestock, dairying, beans, grains, vegetables, mustard, and flower seeds. All lines are reported as being fairly prosperous, with the exception of the bean growers, who have been adversely affected by the low price of beans. This last season the lettuce growers have been particularly prosperous, owing to the effects of the March storm on growers in other parts of the state. Lettuce has recently been selling as high as $11 a crate. In prior years it is estimated that up to 80% of the world's mustard seed crop was grown in this valley, but of late considerable acreage formerly devoted to the growing of mustard has been diverted to other purposes.

Ventura County, California

Conditions in Ventura County are fairly prosperous. Citrus growers face lower prices, and the bean growers, owing to the price of beans, are not making any profit. It is problematical just how they will fare, as the last payment for last fall's crop has not yet been made by the association, and the amount of it is yet unknown.

San Francisco (continued)

There is very little building activity, and no interest is displayed in the F. H. A. program, the reason assigned being that "there is too much red tape and that building costs are too high."

Imperial Valley, California

Conditions in the Imperial Valley were considered to be fair. There is more fattening of cattle and sheep than formerly, and operators will make some money.

Low prices are being received for butter fat, and only the better operators will show profits. However, dairying in the Valley is fundamentally in a sounder condition through the elimination of several hundred marginal producers.

Although there was a fair crop, the winter lettuce deal was a failure on account of the very low prices received, with no growers showing profits.

Prices for grapefruit were very low, and the outlook is not promising.

The cantaloupe deal is just starting, and while a few shipments have been made and high prices received, future prices are problematical when the deal gets into full swing. Prospects are for a fair crop only.

Alfalfa prices have been low, but have recently stiffened.

Growers of green peas, of which there are two crops, were fortunate in having large crops and high prices.

Housing activities are on a very limited scale.

Mid-Columbia District, Oregon

Prospects for a good crop of wheat in the Mid-Columbia area were excellent. The livestock situation is reported to be favorable, cattle and sheep having come through the winter in good condition, with ample feed and with a minimum amount of loss. A little better than normal spring lamb crop is estimated, and, notwithstanding the heavy carryover of wool for the country as a whole, growers are anticipating a price of around 18 cents per pound.

Southwestern Washington - Cowlitz and Clark Counties

The lumber industry in the lower Columbia River area for several months past has been hampered by internal labor disputes, and running on a very low production schedule owing to the lack of demand and market conditions. The large mills in Longview for the past several months have been operating on a three to four day week schedule with an average return to the

San Francisco (continued)

common mill labor of $75 to $80 per month. This reduction in pay roll has naturally reflected in the volume of commercial business, but we are informed that merchants are not overstocked and have thus far been able to carry on with very few liquidations.

Dairymen have done fairly well, although there are complaints that the price of feed is still high in proportion to the returns. Recent reductions in the price of milk in the Portland milk shed will add some difficulties to the milk producers unless the costs can be further reduced.

Poultry business has been a problem for some time. Cost of feed has not been reduced in relation to the reduction in the egg prices and most producers are having difficulty getting by.

Prune growers have had several bad years in succession, of which 1937 was no exception. It was reported that a number of growers are pulling out prune trees and putting in filberts.

Business conditions in the towns visited were reported very slow with the outlook not very encouraging.

Wenatchee and Yakima Valleys, Washington

These valleys are large apple-producing districts. Information disclosed was to the effect that the present price of apples was too low to pay the cost of production, but that apples were being sold quite freely in order to move them and get anything back. The general attitude was that the less said about apples at this time, the better.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

APRIL, 1938

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	41	23	64	None	None	None	None
New York	135	38	173	9	1,638	3	170
Philadelphia	92	30	122	6	1,357	3	407
Cleveland	153	29	182	4	505	2	70
Richmond	65	49	114	11	1,520	1	160
Atlanta	9	2	11	2	846	None	None
Chicago	124	10	134	2	**419	None	None
St. Louis	62	122	184	None	None	2	350
Minneapolis	64	104	168	11	975	4	146
Kansas City	37	13	50	11	1,298	2	300
Dallas	37	4	41	2	110	None	None
San Francisco	61	10	*71	21	1,949	3	552

*Includes visits to branches of banks, member 33
**Attendance at one not reported.

R-250

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 26, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZSERP - Treasury Bills to be dated June 1, 1938, and to mature August 31, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 1, 1938.

Dear Sir:

For your information there is inclosed a copy of a letter from the Board's Division of Bank Operations to one of the Federal Reserve banks with reference to reporting on Form E and Form 96a fiscal agency, custodianship, and depositary expenses applicable to the Commodity Credit Corporation.

Very truly yours,

J R Van Fossen

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

Inclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT ST. LOUIS

R-251-a

May 20, 1938

Mr. ______________, Assistant Cashier,
Federal Reserve Bank of __________,
______________, __________.

Dear Mr. __________:

Reference is made to your letter of May 17, 1938, asking whether the Board's telegram of May 7 contemplated that all expenses applicable to the Commodity Credit Corporation, retroactive to January 1, 1938, should be reported separately on page 23 of Form E, and on Form 96a or only that portion of such expenses as will be reimbursed by the Commodity Credit Corporation.

All fiscal agency, custodianship, and depositary expenses incurred for the Commodity Credit Corporation, regardless of how billed when obtaining reimbursement, should be included in the new unit on Form E and reported separately on Form 96a. Any adjustment necessary on Form 96a so as to include such expenses from January 1, 1938, should be made on Form 96a for the month of May.

Very truly yours,

(Signed) J. R. Van Fossen

J. R. Van Fossen, Ass't Chief,
Division of Bank Operations.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-252

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 2, 1938.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of May, 1938.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-252-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
May 2 to 31, 1938.

Federal Reserve Notes, Series 1934.

	$10	$20	$500	$1000	$5000	$10000	Total Sheets	Amount
Boston	105,000	25,000	1,700	450	200	100	132,450	$ 12,715.20
New York	185,000	46,000	-	-	-	-	231,000	22,176.00
Philadelphia	72,000	25,000	-	-	-	-	97,000	9,312.00
Cleveland	52,000	45,000	-	-	-	-	97,000	9,312.00
Richmond	35,000	30,000	-	-	-	-	65,000	6,240.00
Atlanta	45,000	10,000	-	-	-	-	55,000	5,280.00
Chicago	103,000	35,000	-	-	-	-	138,000	13,248.00
St. Louis	30,000	20,000	-	-	-	-	50,000	4,800.00
Minneapolis	30,000	16,000	-	-	-	-	46,000	4,416.00
Kansas City	30,000	20,000	-	-	-	-	50,000	4,800.00
San Francisco	75,000	40,000	-	-	-	-	115,000	11,040.00
	762,000	312,000	1,700	450	200	100	1,076,450	$103,339.20

1,076,450 sheets @ $96.00 per M...............$103,339.20

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 3, 1938
R-253

Dear Sir:

Referring to the Board's letter R-164 of January 13, 1938, following is a statement of changes reported during May in the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Additions

Missouri	
Kansas City	Mercantile Home Bank & Trust Company
New Jersey	
Atlantic City	Guarantee Bank and Trust Company
Wisconsin	
Marshfield	Central State Bank

Deletion

New Jersey	
Atlantic City	Guarantee Trust Company

The Guarantee Trust Company, Atlantic City, New Jersey, should be added with the following note to the list (R-164-b) of banks which filed agreements with the Board of Governors of the Federal Reserve System pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, but which are no longer in operation as nonmember banks:

(Succeeded on May 2, 1938, by "Guarantee Bank and Trust Company")

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-254

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

June 6, 1938.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

> NOZSIX - Treasury Bills to be dated June 8, 1938, and to mature September 7, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 7, 1938.

SUBJECT: Code Words Covering New Issues of Treasury Notes and Treasury Bonds.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code words have been designated to cover new issues of Treasury Notes and Treasury Bonds:

NOWLYES - 1 1/8% Treasury Notes of Series A-1943, to be dated June 15, 1938, and to mature on June 15, 1943.

NOWDOW - 2 3/4% Treasury Bonds of 1958-63, to be dated June 15, 1938, and to mature on June 15, 1963.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-256

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 10, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZSON - Treasury Bills to
be dated June 15, 1938, and
to mature September 14, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-257

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 14, 1938.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of May, 1938.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-district Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-257-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MAY, 1938

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board(2)	Payable to Board of Governors
Boston	37,064	1,065	38,129	$ 564.56	$ 325.77	$ 238.79
New York	105,136	—	105,136	1,556.71	1,035.35	521.36
Philadelphia	10,337	1,067	11,404	168.86	256.35	87.49(a)
Cleveland	44,318	1,084	45,402	672.25	277.93	394.32
Richmond	42,580	1,058	43,638	646.13	224.20	421.93
Atlanta	64,116	1,035	65,151	964.67	337.27	627.40
Chicago	87,664	1,188	88,852	1,315.60	1,192.87	122.73
St. Louis	68,906	1,124	70,030	1,036.91	228.61	808.30
Minneapolis	29,753	1,076	30,829	456.47	169.76	286.71
Kansas City	62,554	1,058	63,612	941.88	259.18	682.70
Dallas	61,942	1,086	63,028	933.23	281.43	651.80
San Francisco	75,755	1,074	76,829	1,137.58	383.24	754.34
Board of Governors	453,512	—	453,512	6,714.98	12,137.87	—
Total	1,143,637	11,915	1,155,552	$17,109.83	$17,109.83	$5,510.38
						87.49(a)
						$5,422.89

(1) Based on cost per word ($.014806629) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies ($1,605.41) and wire rental ($10,532.46). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

(a) Credit - reimbursable to Philadelphia.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

June 15, 1938.

Dear Sir:

There is attached a copy of a resolution adopted by the Board of Governors of the Federal Reserve System levying an assessment upon the various Federal reserve banks in an amount equal to two hundred and seventy-four thousandths of one per cent (.00274) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal reserve banks as of the close of business June 30, 1938, to defray the estimated expenses and salaries of the members and employees of the Board from July 1 to December 31, 1938.

The resolution also contains instructions with regard to the manner in which the payments on the assessment shall be deposited with the Federal Reserve Bank of Richmond.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-258-a

RESOLUTION LEVYING ASSESSMENT

WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides, among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning July 1, 1938, it is necessary that a fund equal to two hundred and seventy-four thousandths of one per cent (.00274) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal reserve banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal reserve notes;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal reserve banks an assessment in an amount equal to two hundred and seventy-four thousandths of one per cent (.00274) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business June 30, 1938.

(2) Such assessment shall be paid by each Federal reserve bank in two equal installments on July 1, 1938, and September 1, 1938, respectively.

(3) Every Federal reserve bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Inter-district Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

R-259

June 16, 1938.

SUBJECT: Earnings and Dividends Reports of State Bank Members, Form 107.

Dear Sir:

There have been forwarded to you today under separate cover copies of Form 107 to be used by State bank members in submitting their reports of earnings and dividends for the six months ending June 30, 1938. The form is identical with the one that was used in submitting reports for the semiannual period ended December 31, 1937.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-260

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1938

SUBJECT: Call Reports of State Bank Members and their Affiliates

Dear Sir:

There have been forwarded to you today under separate cover the indicated number of copies of the seven forms attached hereto, for the use of State bank members and their affiliates in submitting reports as of the next call date:

Number of copies	Form
	Form FR 105, Report of condition of State bank member.
	Form FR 105b (Schedule "O"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
	Form FR 105e, Publisher's copy of report of condition of State bank member.
	Form 105g, Alternate Schedule E, Loans and Discounts.
	Form FR 220, Report of affiliate or holding company affiliate.
	Form FR 220a, Publisher's copy of report of affiliate or holding company affiliate.
	Form FR 220b, Instructions for preparation of reports of affiliates and holding company affiliates.

Form FR 105 has been amended by providing a new item, 2(d), in Schedule F for reporting holdings of "Commodity Credit Corporation notes" and "Federal Housing Administration mutual mortgage insurance fund debentures", guaranteed by the United States Government as to interest and principal. Notes of the Federal National Mortgage Association, $29,000,000 of which were sold last month by the Reconstruction Finance Corporation, should not be included in item 2(d) of Schedule F but in item 2(d) of Schedule G.

The memorandum items at the bottom of page 4, "Total agricultural loans and loans on farm land" and "Farm real estate owned", have been reported regularly on other recent mid-year and end-of-year calls. In view of the difficulty experienced in the past in obtaining substantially accurate figures for these items, the attached definitions have been prepared for the guidance of State bank members. The same definitions have been included in the Comptroller of the Currency's call report letter to national banks dated May 26, 1938.

Form FR 105e has been amended by inserting instructions at the top thereof to the effect that item numbers and blank items need not be published, and by eliminating the words "on a date fixed by the Board of Governors of the Federal Reserve System" from the reference to publication requirements appearing immediately following the call date. A review of published statements submitted as of March 7, 1938 disclosed many errors that could have been avoided if the member banks had prepared the publisher's copy from the official report and carefully compared it therewith. Please, therefore, ask the member banks to carefully compare the printer's copy with the official report before the copy is sent to the printer. Please also furnish the Board with copies of any letters sent to State bank members calling attention to errors in their published statements and of any replies thereto, so that such correspondence together with the published statement may serve as the basis of determining whether or not republication should be required. You will be advised if the Board considers it necessary to require any State bank member to republish its statement.

The same procedure should be followed as on the last call for condition reports in mailing blank forms to State bank members, examining the reports, and forwarding copies thereof to the Board. The usual summary statement should be mailed to the Board showing the classifications of loans and investments, by classes of banks, in time to reach the Board within three weeks after the date on which the call is made, if practicable.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-260a

DEFINITIONS OF "AGRICULTURAL LOANS AND LOANS ON FARM LAND" AND "FARM REAL ESTATE OWNED", MEMORANDUM ITEMS AT BOTTOM OF PAGE 4 OF FORM FR 105, CALL REPORT OF STATE BANK MEMBERS

By "Agricultural loans and loans on farm land" is meant (1) all loans on farm land and (2) all other loans to farm or ranch owners and operators, including tenants, except where it is known the funds were borrowed for purposes clearly unrelated to the purchase, maintenance, improvement, or operation of farms or ranches. The term "Agricultural loans" will, therefore, include (a) loans and advances made for agricultural production, including the growing of crops, the marketing or carrying of agricultural products by the growers thereof, and the breeding, raising, fattening, or marketing of livestock; and (b) loans and advances made for all other purposes associated with the purchase, maintenance, improvement, or operation of the farm as a business or a home, including provisions for the living expenses of farmers or ranchers and their families. In determining whether or not a given loan is an "agricultural loan" for the purpose of the condition report, the bank may rely on such information as it has available. Loans on cotton or other commodities, owned by the bank but guaranteed by the Commodity Credit Corporation, should be classified as "Agricultural loans", but notes of the Commodity Credit Corporation fully guaranteed as to interest and principal by the United States Government should be reported as investments against item 2(d) of Schedule F.

By "Farm real estate" is meant not only improved farm land, including the improvements thereon, but also all other land known to be used or usable for agricultural purposes, such as crop and livestock production, including grazing or pasture land, whether plowable or not plowable, and whether wooded or not wooded.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

R-261

June 17, 1938

Dear Sir:

Referring to the Board's letter of December 6, 1937, (R-126), it will be appreciated if you will advise us of the total amount of prior service contributions to the Retirement System made by your bank in each of the years 1934 and 1935 and the item or items on Form 96 or the profit and loss account to which such contributions were charged.

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT RICHMOND

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-262

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1938.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes from June 1 to June 15, 1938.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-262-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
June 1 to June 15, 1938.

Federal Reserve Notes, Series 1934.

	$10	$20	Total Sheets	Amount
Boston	105,000	30,000	135,000	$12,960.00
New York	185,000	14,000	199,000	19,104.00
Philadelphia	40,000	-	40,000	3,840.00
Cleveland	-	40,000	40,000	3,840.00
Richmond	-	30,000	30,000	2,880.00
Atlanta	-	10,000	10,000	960.00
Chicago	-	35,000	35,000	3,360.00
St. Louis	-	6,000	6,000	576.00
Kansas City	12,000	-	12,000	1,152.00
San Francisco	70,000	30,000	100,000	9,600.00
	412,000	195,000	607,000	$58,272.00

607,000 sheets @ $96.00 per M.......$58,272.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 18, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZSUK - Treasury Bills to be dated June 22, 1938, and to mature September 21, 1938.

Very truly yours,

S R Carpenter

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 20, 1938.

SUBJECT: Holidays during July, 1938.

Dear Sir:

On Monday, July 4, the offices of the Board of Governors of the Federal Reserve System and all Federal reserve banks and branches will be closed in observance of Independence Day.

The Board has been advised that holidays also will be observed during July by the following offices:

Tuesday, July 12	Oklahoma City	Primary Election Day
Wednesday, July 13	Nashville Memphis	General Forrest's Birthday
Saturday, July 23	Dallas El Paso Houston San Antonio	First Primary Election Day
Monday, July 25	Salt Lake City	In observance of Utah Pioneer Day, which falls on Sunday

On the dates given the offices mentioned will not participate in either the transit or the Federal reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices affected on July 23 and 25 with your credits for the following business days.

Please notify branches.

Very truly yours,

J. C. Noell

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

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

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-265-a

June 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 May 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.

Aside from complaints as to the difficulty of finding profitable use for funds, the most general matter of concern to bankers appears to be governmental policy in the field of bank supervision, lending by government agencies, taxation, relief, and production and erosion control. The attitude of bankers on these questions is prevailingly critical.

They appear to be particularly impressed by evidence of inconsistency on the part of governmental agencies. They complain that from one quarter there is pressure upon them to lend, from another criticism of them for the loans they make, and at the same time very active competition from governmental agencies in the field of lending.

This dissatisfaction with governmental policies does not prevent Government securities from being in general definitely preferred for investment.

While economic conditions are generally spoken of as being extremely depressed, there is less discouragement on the whole in the west than in the east. For one thing, crop prospects in many parts of the west appear to be good. For another thing, western bankers appear not to have had in general as serious depreciation in their bond accounts as eastern bankers have had.

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

Boston

During May visits were made to 37 member banks and 20 nonmember banks in Vermont, New Hampshire and Massachusetts. The majority of the banks visited are located in rural communities devoted principally to dairying and small farming, and in the larger trading centers serving such communities.

Other industries are represented throughout the section by a scattering of small woolen mills, shoe factories, machine shops, and woodworking plants, and in Vermont by the granite quarries and stone-finishing shops at Barre and vicinity. Operations are at the low point at practically all of these plants, excepting at the shoe factories which are reported to be in seasonal production with no great volume of orders ahead. At the marble quarries workers were on strike for a wage adjustment, and operations, which have not been large for some time, had ceased temporarily pending settlement of the strike.

No large money-crops are raised in the agricultural districts visited - the principal income of the farmers coming from the sale of milk to the large distributing concerns of Boston and New York. Bankers expressed the view that dairying in these sections is not a well-organized industry from the standpoint of the producer and tends to show constantly diminishing returns.

The demand for bank credit in the rural districts and trading centers has shown a seasonal increase over the past sixty days. The farmers are borrowing for crop-making purposes and in addition the banks are advancing them the funds they require to carry out a soil conservation program under Governmental subsidy. The demand of summer hotels and resorts for their seasonal requirements is at hand and the small municipalities are borrowing locally, in anticipation of fall tax payments, to meet their current expenditures. With the exception of the loans made to municipalities, which bear rates of from 3% to 4½% practically all loans carry a 6% rate.

The investment list at practically every bank visited showed a depreciation, the range being from 5% to as high as 33% in the case of one bank, and averaging around 15% for all banks visited.

While at some of the banks there is a tendency on the part of the officers to be somewhat critical of governmental purposes and policies, at no bank was any criticism made of the administration of the Federal Reserve System or of this bank.

New York

Allegany County (Buffalo Branch Territory)

Except in two or three instances, the demand for credit throughout the county is reported to be very light, and as a consequence of this, together with a hesitancy to purchase securities at the present time, most of the banks are carrying reserves well in excess of their requirements. One small bank situated in an agricultural community opened a personal loan department about a year ago, and by soliciting business in neigboring communities where a fairly sizable number of salaried workers reside, has developed a good volume of loans and reports their experience up to the present time as very satisfactory. Another bank in the same locality is giving serious consideration also to engaging in this form of lending. Many of the farmers throughout the county were reported to be receiving benefits under the Government's Soil Conservation program and the banks, as a general thing, are making advances against the assignment of these benefits. The amounts involved in this respect, however, are small and accordingly do not afford any material outlet for funds. With the exception of one bank situated in Wellsville (population 5,500), there is no activity in Federal Housing loans. This bank has made $135,000 Title II loans and actively solicits this type of business.

Genesee and Orleans Counties (Buffalo Branch Territory)

There are eleven commercial banks (two members and nine nonmembers) and a branch of a Buffalo trust company serving this territory. Nine of the eleven banks in this county originally issued preferred stock or capital debentures aggregating $680,000, of which $377,000 has since been retired. Until recently there was a general disposition to redeem this additional capital as rapidly as conditions would permit, or as authorizations could be obtained, and all but two banks have effected reductions, at least in part, if not entirely. Interruptions in the program may be expected for the time being, as there is evident a growing attitude to delay further repayments as a consequence of the decline in the security markets. The total still outstanding is held by the Reconstruction Finance Corporation.

Wyoming County (Buffalo Branch Territory)

The aggregate of loans, now about $3,900,000, has been slightly reduced since a year ago. It was reported to us quite generally by banks that they are making every effort to make good loans, but not much demand is in evidence, certainly from reasonably satisfactory credit risks. The manufacturers are limping along on a staggered basis, unwilling to make forward commitments, particularly as jobbers and wholesalers are reported as being overstocked and buyers purchasing only on a spot basis. The farmers, fearful of further crop failures and low prices for their products, are hesitant about getting deeper into debt. Collections naturally are poor. There is little demand for Federal Housing loans. Several of the banks are developing personal loan business and are meeting with some gratifying results. Most of the banks are placing all new loans on an amortization basis. They are likewise endeavoring to amortize old loans, but are meeting considerable resistance.

Chemung, Schuyler, Steuben, Tioga, and Tompkins Counties

Bond portfolios in general reflect a high proportion of United States government issues, ranging from a low of 2 per cent in the case of a very small bank to as high as 95 percent in one of the larger banks, and showing an average of 54 per cent for all banks. Many of the banks in this area are limiting their investment operations chiefly to United States government bonds, some selling their longer term issues while others are replacing with issues of shorter maturities, both groups feeling that peak prices have been reached and that a drop in the market is about due. Bankers in discussing possible June 15 government financing expressed the hope that if bonds were offered, the maturity would be somewhere between 10 and 15 years in preference to a longer term issue, some indicating that they did not think a longer maturity would be well received. Owing to recent poor market conditions the banks are not making much headway in improving their corporate investment position as there is a general reluctance to take the losses necessary at present market prices. Of the banks in this group, only nine still show a net appreciation in their bond lists with the percentages ranging up to 4 per cent, two are about even with the market, and twenty-one institutions show depreciation ranging from less than 1 per cent to as high as 13 per cent.

Loans total approximately $25,000,000 and show a slight upward trend as compared to a year ago. This increase is largely in the smaller banks in the rural sections where there appears to be a somewhat better demand for seasonal loans for crop production and other farming purposes. In the larger centers the few increases shown are mainly due to purchases of outside commercial paper or public borrowings. There appears to be a growing tendency to take on personal loans and automobile paper, a field in which financing companies are offering strong competition.

Philadelphia

Industrial and trade conditions in the six counties of Pennsylvania covered by this report are decidedly less favorable than a year ago. In manufacturing lines operating schedules generally have been curtailed drastically since last autumn, one of the few bright spots being small gains lately in shipbuilding activity in Delaware County. Production of anthracite fuel in Wyoming County and that of bituminous coal in Tioga County has slackened considerably and is much smaller than last year. The results of agricultural operations likewise have been less satisfactory than a year ago. Although the value of contemplated construction was larger in the first quarter this year than last, there is little current evidence of sustained expansion in the building industry. The effects of reduced income from wages and other sources are apparent in a decline in retail sales of general merchandise and in the failure of automobile sales to equal seasonal expectations.

Factory employment has declined sharply as compared with the early months of 1937 and still greater reductions have taken place in payrolls and working time, indicating curtailed operations. Further slackening in both the durable and consumers' goods industries is shown by preliminary reports for May. Contraction in the operations of iron and steel mills and textile plants was especially pronounced and was distinctly at variance with the comparative stability to be expected from April to May.

The depressed industrial situation is clearly reflected in the building industry. Demand for residences and commercial and factory buildings has shown little improvement and thus far has been considerably smaller than in the spring of 1937. Such gains as have occurred have been principally in the nonresidential field, with educational structures contributing measurably to contemplated construction totals in several counties. Although prices of building materials have declined considerably during the past six months, labor costs have continued so high as to discourage new construction in many sections.

Receipts from the sale of farm products have been smaller thus far this year than last, owing largely to a substantial decline in prices. The decrease in quotations for grains and other field crops including fruits and vegetables has been more pronounced than in the case of dairy and poultry products, which are a major source of cash income to farmers in these counties. Feed costs have not declined proportionately, so that the margin of profit from the sale of milk, chickens and eggs has narrowed considerably during the past few months.

Deposits are holding fairly well in spite of existing conditions, increases appearing in time and savings accounts in most institutions. Interest rates vary from 1 to 2½ per cent.

Demand for credit accommodation, although usually heaviest in the spring season, continues to be light. The total of loans and discounts in most institutions is decreasing and bankers are complaining because earnings are affected. F. H. A. mortgages are being purchased by some banks for income purposes and the experience with this form of investment has proved satisfactory to date. Several banks are using Federal Reserve credit to meet local demands in preference to selling investment securities. The 6 per cent interest rate predominates but lower rates are charged depending upon the collateral offered or the risk involved.

Generally, it is believed, the condition of the banks is satisfactory. While bond depreciation is a matter of concern, the investment accounts of most institutions have been improved as to quality, and charge offs required by supervising authorities have been made without serious effects.

Cleveland

In one of the large industrial centers in northwestern Ohio, it was reported that plants are operating at twenty to sixty per cent maximum, with loans and deposits decreasing. The real problem of the bankers is the maintenance of reasonable earnings. Reduction of interest rates on deposits is being effected or contemplated.

During the visits to Akron and vicinity, it was developed that labor trouble has aggravated the difficulties of the business situation in this section. This is reported to be bringing about a decentralization of rubber plants, with the anticipated exodus of a large number of workers, and this in turn is causing considerable concern to bankers, merchants, etc. The labor condition has added to the troubles of the retail merchants not only in the curtailment of their business, but also in effecting collections. For the same reason, likewise, real estate loans are a problem. Foreclosures are increasing because of long delinquencies in interest payments.

The price of wool being down to 20¢ as compared with the 36-37¢ prevailing in 1937, has had a detrimental effect on business in the wool-growing counties. Industrial conditions in these counties are not considered more curtailed than in other parts of the state. However, they are quite unfavorable in some instances with the rolling mill down, and employment at a large stove factory down sixty to seventy-five per cent from normal. On the other hand the glass factories held fairly well, and one rubber company was reported as operating at capacity. Banks in this section are making small loans secured by chattel mortgages on an amortization basis, stating from their experience losses are negligible. Most of these banks have committed themselves to a policy of making loans in their communities wherever possible in preference to purchasing bonds.

The report of general business conditions in western Pennsylvania is quite depressing, and business is considered at a lower level now than at any time in the past ten years. A large electrical manufacturing company recently further curtailed operations resulting in a lay-off of approximately seven hundred additional workers. Deposits are decreasing in this section. There is no material change in loans although there is a tendency to decrease, or at best hold their own.

In general the banks visited in the agricultural and industrial communities were well pleased with our services, including our improved check collection facilities. The hope was expressed that the System would be able to work out a plan of average deferred availability for checks payable through the country. The majority of the banks in that section of Pennsylvania, visited during the month of May, however, is not using our check collection facilities, and the reason given is that they have been using their city correspondents for years and see no reason to make a change.

Banks in Wheeling have no complaints on our services, but on the contrary expressed satisfaction. There is practically no demand for loans although all of the bankers interviewed, stated they are eager to make good loans. A number expressed concern regarding their bond portfolios, including governments, which some of them feel are selling too high. They also expressed themselves as confused with the government program, and concerned over its results. While business is quiet the impression seems to prevail that activity in Wheeling and immediate vicinity is not as low as it is in some sections. One steel company was operating at that time at 38% of capacity compared with 25% at Pittsburgh, 27% at Youngstown, and 23% at Cleveland. It was felt this was accounted for by the large diversification of that company's products. One large manufacturer of cotton prints at Wheeling is quite busy, and this is apparently not only seasonal, but the result of demand for lower-priced clothing growing out of curtailed income of individuals.

The only visits in Kentucky were in the immediate vicinity of Cincinnati. One banker voiced vigorous criticism of Reconstruction Finance Corporation publicity in connection with industrial loans, which he states puts the onus on the bankers. To counteract this his bank has been running a series of ads in local papers that that bank solicits loans on the same terms offered by the R. F. C.

Richmond

During the month representatives of this bank have had the opportunity of attending a number of group meetings in various parts of the district. At some of these meetings considerable time was given to discussing the advantages of establishing regional clearing house associations for the banks of a county or several adjoining counties. Banks in the smaller localities are apparently giving more and more thought to uniformity in service charges and interest rates.

In the cotton and tobacco farming districts of the Carolinas many of the early complaints about acreage allotments seem to have disappeared. During the latter part of the month much needed rains greatly benefited crops, and while a comparatively small amount of replanting was required in some sections visited, crops generally appeared in excellent condition. Bond depreciation was no problem to the banks visited, as the volume of corporate bonds held by member banks in the two States is negligible.

In the southern coal fields of West Virginia operations have gradually diminished until the mines are operating two days a week on an average and relief rolls have increased. One executive stated that in his immediate section operations for the first quarter of the year had been at the lowest level of the past twenty years.

Baltimore, with its diversity of industry and large port activities, is said by its bankers to be feeling the recession less than most large cities. Clothing manufacturers, however, are now experiencing quite a recession in operations. On the other hand, an airplane manufacturing company has been working full time in an effort to keep up with orders. There have been no labor troubles of consequence in this city.

Only a few points in Virginia were visited during the past month. Business activity at Norfolk is being sustained, due in part to the activities of the local navy-yard, where employment has been at a peace-time peak. The shipyards at Newport News have sufficient orders to keep them active for more than two years, and employment is gradually being expanded as work progresses. This in turn has given some impetus to the building of homes and apartment houses. Business at Danville has been adversely affected by the curtailment to two days a week of the operations of a large cotton mill which normally employs approximately ten thousand people.

Atlanta

At the joint convention of the Louisiana and Mississippi Bankers Associations, New Orleans, May 10-11, the Chairman of the Executive Committee of the Mississippi Bankers Association made a report in which he reiterated the Association's opposition to Par Clearance. The adoption of uniform service and maintenance charges was advocated.

The Mississippi State Comptroller, in an address before the Mississippi bankers, stated that exchange and service charges were the "very life" of Mississippi banks and that in his opinion 90% of them would show a loss in operation if it were not for these sources of income. The State Comptroller is convinced that further efforts to establish universal Par Clearance will be made. The Mississippi Bankers Association was urged to recognize this fact, and be prepared to meet the situation when the movement is again revived.

Mississippi banks which face compulsory membership in the Federal Reserve System in 1941 were organized at the Convention for the purpose of obtaining an amendment of the law in this respect.

The Managing Director of the New Orleans Branch made visits to seven banking points in the vicinity of New Orleans. The bankers interviewed expressed dissatisfaction with the current demand for loans, and they find it difficult to keep their funds profitably employed. In general, the volume of loans and of earnings compare favorably with the same period of 1937.

In the vicinity of Covington and Mandeville the erection of summer homes on Lake Pontchartrain has stimulated the demand for real estate to the benefit of the banks located in these towns. Cattle raising is very profitable in this area, and the annual catch of muskrat in St. Tammany Parish alone exceeds $100,000.

The strawberry crop in the vicinity of Hammond was damaged somewhat by frost. The anticipated yield of 3,400 cars was approximately 900 cars in excess of the actual yield. The value of this crop was reduced by about $1,000,000 below the return of $3,500,000 estimated at the beginning of the season. It was reported that a large number of the growers made expenses only. It was reported also that the bean crop, which follows the berry crop, is practically a failure; but in spite of these failures collections made by the banks have been good.

On visits made to the member banks in Mobile our representatives were informed that, while business was quiet, the city of Mobile had not felt the decline in business nearly so much as other cities of similar size. Shipping at the Port of Mobile has held up very well, and there has been no labor trouble of consequence during the past twelve months. The volume of loans, deposit liability and earnings compare favorably with a year ago.

Visits were made to eight nonmember banks and one member bank located in the plateau section of Tennessee. This section is principally agricultural, and the agricultural outlook is very gratifying. The few manufacturing enterprises are materially depressed. The coal mining industry in the Sequatchie Valley is closed down on account of labor trouble and has been for some time. Farmers are obtaining satisfactory prices for lambs and wool.

On visits by our representatives to the three member banks and one nonmember bank in Knoxville, Tennessee, it was reported that the local manufacturing concerns had felt the effects of the present recession, and that payrolls were a little less than half of what they were a year ago. The exception is the marble industry, which has benefited from construction projects undertaken in Washington. The outlook for this industry over the next year is for continued activity. The bankers interviewed expressed the desire to increase the volume of their loans and complained of the lack of demand.

Chicago

The major part of the bank relations work during May consisted of calls on banks located in Illinois and southeastern Iowa, a few calls being made in northern Indiana, southern Michigan, and Wisconsin.

The trend toward lower interest rates paid on deposits continues. The majority of the banks visited report a two per cent rate, and a number of them contemplate a further reduction.

No appreciable change was noted with respect to local loan demand or lending rate, as most banks continue to complain of their inability to keep their funds invested. However, a few are making real estate mortgages and have a fair demand for small seasonal loans. There is apparently no great interest displayed in F.H.A. loans.

Very little complaint was heard with respect to Government competition with the exception of the usual reference to Postal Savings. Several banks stated that they had lost deposits to the postoffice following reduction in the interest rate on deposits, and others are anticipating this experience when their change in rate goes into effect. Insurance companies were referred to in one case as being the worst competitors for farm loans.

A review of the bonds held by State member banks in the States of Indiana, Iowa, and Wisconsin, shows that none of these banks has a capital impairment if depreciation in No. 1 bonds is excluded. Including Group No. 1 depreciation, three banks show a slight impairment of capital. A review of the bonds in the State member banks in Illinois and Michigan has not been completed.

While in a few places there are too many banks and some mergers would be advisable, as a rule the territory is not overbanked. For example: Blandinsville, Illinois - formerly 28 banks in the county, now only 10; Sandwich, Illinois - banks formerly at three surrounding towns were not reorganized after the moratorium.

A large amount of corn is being held on the farms; however, in many instances, large movements of corn to market are reported. A bumper wheat crop is in prospect in southern Illinois. It was estimated that only about 75 per cent of the corn had been planted due to wet weather. Because of the high price of hybrid seed corn, farmers have been reluctant to risk planting too early.

In practically the entire area visited, very few or no sales of farm lands were being made, and there was very little activity in building.

Business generally continues to reflect decreased employment.

(The following paragraph is quoted from the Declaration of Policy recently adopted by the Illinois Bankers Association:)

> "The community life in any State to a large extent is measured by its banking facilities. It has been demonstrated most thoroughly that the dual system of state and national banks has offered the most advantages. It has also been demonstrated that the state banking system has contributed enormously to the development of the country with particular regard to the respective immediate communities in which the banks are located and also that it is most desirable to national banks that the state system be maintained, inasmuch as in a country with the territorial extent, natural resources, and different social needs, such as exist in the United States of America, centralized control over banking operations and practices would be most undesirable. The only way of preventing the centralization of banking control in the hands of the federal government is through the maintenance of the dual system. It is, therefore, most necessary that the citizens of our State appreciate this need and support the movement which has for its purpose the retention to the State of its right to maintain and operate a state banking system and of more immediate importance, the maintenance of state banks in the communities in this State in which they are at the present time functioning or for which they may later on be needed."

St. Louis

Visits to various parts of the Eighth District during the month of May indicate widely divergent conditions connected with the agricultural outlook for the current season. Little or no change is noticeable in either industrial or mercantile trade circles.

Wheat gives promise of a very large yield in Missouri and also in certain portions of Illinois and Indiana. There are large areas in both states, however, where much damage was done during the winter and early spring that will curtail the yield.

Dairying, or the production of fresh milk in particular, has been greatly encouraged in a section of one of the southern States of this district. The consumer companies operate a regular route, and factories using 50,000 and 60,000 lbs. of milk daily are located in several of the towns visited. One 1,600 acre farm has practically quit cotton farming and devotes most of the land to pasture and grain crops.

Mercantile sales continue to be on about the same scale that has existed since January 1, 1938, and there is no indication of any change at this time.

Industrial concerns, including coal mines, are largely "marking time", awaiting some indication of more favorable conditions before making any extensive commitments. Employment conditions, therefore, remain much the same as those which have existed since the first of the present year.

A member bank officer who is personally cooperating with the Agriculture Department in its present soil conservation program, made comment to the effect that he is quite skeptical as to its success. A nonmember bank was very outspoken in the belief that the action of the administration is not helping to correct conditions, but is hindering the stabilization of prices.

At the time of our representative's visit to an Arkansas nonmember bank, the bank was full of Negroes cashing Government rental checks. The officers of this bank were thoroughly dissatisfied with the Government Farm Program. They do not consider it will do any one any good in the long run and firmly believe that the remedy is hard work and more of it.

One nonmember banker complained that the Production Credit Corporation was hurting his business very much on account of lending money at 5% and he was unable to overcome this competition. Another nonmember banker, who reported a fair demand for credit, explained that there were six Government agencies operating in his vicinity in competition to his bank, and he remarked that none of these agencies had to pay any taxes.

The cashier of a member bank indicated that he did not feel the Government agencies or the finance companies represented a type of competition to be criticized. He stated that the local Production Credit Corporation, as well as the Federal Land Bank, offered a means of taking care of loans which he considered undesirable. On the other hand, he informed our officers that some loans which these agencies had made were later taken over by his bank when they appeared to him to be more attractive than when originally presented. This bank is not interested in investing in bonds other than Government.

A nonmember bank, which has a fair demand for credit, picks its own customers, the others going to Government agencies. Its loans are secured by stock and crop mortgages and the bank insists that a tenant's landlord sign the note with him. The officer stated that last year all of his loans were paid except two small ones which would be paid this year. One nonmember banker is very strong for loans to small farmers secured by stock and crop mortgages, having made approximately 2,000 of them this year, all of which bear 8% interest. Every note of this nature which the bank had in its note case last year was collected.

There is much evidence of a lack of cooperation among bankers in the southern portion of this district with regard to service charges. In some cases the demand for credit is less than that of last year, and the income from service charges would give many banks an added source of income.

Minneapolis

Southwestern South Dakota

Rates charged on loans average from seven to eight percent; but there is only a fair demand for loans, due presumably, to lack of security, practically the only loans applied for being for seed and immediate expenses. Comparison reports issued by our Statistical Department have been recognized as beneficial data by the bankers throughout the visited section, the only criticism raised being directed at the propaganda on industrial loans. Several state bank members are seriously considering withdrawal of their membership and commencing a program of exchange charging. One banker admitted that the institution he represents is losing approximately $3,000 a year and that there is no particular advantage in membership at the present time.

Services rendered our bank members apparently have met with satisfaction, and many of the bankers expressed gratitude over the speed with which currency shipments are made through the recent arrangement with the Kansas City Federal to handle currency for use in the Black Hills territory.

South Central Minnesota

The report on our study of Operating Ratios of Member Banks owes its somewhat startling success, I believe, to our posting the bank's own figures on the report sent to each member. One banker used the report to settle a 3-year argument with his directors as to the showings made by his bank in comparison with those of other banks in his size group; another convinced his directors that their salary schedule was far below average; it awakened one banker to the fact that he was paying out far too large a portion of his earnings in "interest on deposits" and so on. Bankers with favorable comparisons were proud of their showing but they appeared to be as anxious to discuss their figures when the showing was unfavorable as when it was favorable.

A commonly expressed opinion was that there were "too many regulatory bodies." "Why can't all of the Federal agencies, at least, be unified?" One banker was of the opinion that there was no need of bestirring himself at present in regard to membership as he felt that we were headed toward a "one big system of some sort within 5-10 years." On the other hand, members and non-members both commented on recent conversions of national to state banks in the district and forecast a continuation of that trend in the future.

One member was of the opinion that the recent decrease in reserve requirements was an admission that the increase in reserve requirements in 1937 had had an unfavorable psychological effect on business (little effect on banking because of the large excess reserves) and consequently was responsible for the current business depression.

Hedged in by neighboring banks (one banker is limited to a single township), with a consequent limited outlet for funds, many bankers have in the past purchased bonds and a few FHA loans. With sagging bond prices during recent months, some are in difficult spots. Part of them held on to the profits they realized in 1936 and early 1937 and are now using that to cover the current depreciation. Their biggest problem is railroad bonds (New York Central, Southern Pacific and several had Erie's) with their 30-40% depreciation. They do not know whether to write down to market or to sell out and charge the loss up to experience. One nonmember with a bond account of less than

$100M has been subscribing to a $400 bond advisory service but has concluded that even the best of such services is of little value to the country banker because he does not follow their recommendations. His service advised him by wire to "sell everything" last fall, but he just couldn't do business like that! He admits that he would have saved about $15M had he followed their advice but since he did not, he is abandoning bonds (except United States Savings) and purchasing FHA mortgages. Other bankers are also pulling out of the bond market and purchasing various kinds of installment paper much of which they know little about, frequently relying on the personal recommendation by a "big banker", a rather dangerous practice as one or two have already discovered. Nearly all of the banks have their full quota of United States Savings bonds frequently with purchase dates staggered throughout the twelve months. Some bankers have adopted the practice of carrying them at cost on account of income taxes, but there is no uniform policy. Premiums have recently been so high on other government bonds that many bankers have been tempted to sell a part of their holdings. A few have already let some go, on the theory that "you can't go broke taking profits!" On the other hand, some are hesitant about purchasing the longer term governments and do not know what else to invest in. They were all asking the same questions, what is going to happen to government bond prices? How will the removal of the tax exempt feature affect prices of outstanding bonds? of future issues? One banker commented on the recent Supreme Court decision regarding municipal bankruptcies and indicated that his bond list would be devoid of municipals hereafter.

There is a considerable range ($5\frac{1}{2}$-8%) in interest rates charged on current agricultural loans in this section, partially dependent upon proximity to PCA offices but none of the banks were actually meeting the PCA rates. Real estate loans were being made generally at 5 or 6%. Some banks have reduced the time deposit rate to 2% ($1\frac{1}{2}$% in the larger centers) but a majority still pay $2\frac{1}{2}$% although many of them said they "paid too much" before they mentioned the rate they did pay. One or two bankers have refused to lower the rate to 2% and the encircling banks are afraid they will lose all of their time deposits if they should be so bold as to reduce to 2%. One non-member suggested the FDIC would be strengthening the insured banks immeasurably if it issued a regulation lowering the maximum rate payable on time deposits to 2% and I am sure such a regulation would be quite generally welcomed.

One banker whispered the question, "What was the real reason for the recent decrease in reserve requirements?"

The numerous complaints made in regard to various governmental or quasi-governmental agencies may not have any great significance as they were so scattered, i.e., almost every banker had his pet "peeve" but there was no one agency that was subjected to wholesale criticism. However, since they were numerous, they might be considered as straws in the wind, indicating that the bankers in this area are not entirely satisfied with the present situation. The advertising by savings and loan associations to the effect that funds left with them are "insured savings" on which a higher rate of interest is paid than at banks drew the most fire and as one banker remarked, "I can't see why Crowley stands for it!" PCA competition ranked second in the number of complaints, chiefly because of their lower interest charges (5-5½ PLUS fees) but partly because of their aggressiveness. At Austin the business men are thoroughly disgusted with the gross inefficiency of the RA in its handling of the Housing Project which they initiated and in several localities the citizens are said to be "all but up in arms" because of the heavy WPA and relief load which has been built up through a "liberal" relief policy. I do not recall any evidence that any of the banks are authorized mortgagees for FHA mortgages nor are they operating under Title I but several are purchasing FHA mortgages from other localities when small ones can be procured. One banker indicated the confused picture he had of the future of banking by saying, "One governmental agency urges banks to lend-lend-lend and the next time the examiners arrive they tell us to collect-collect-collect! Both of them threaten to take over the banking functions unless bankers do their duty as _they_ see it! What are _we_ supposed to do?"

Only one banker had a good word for the new Farm Act. Corn is the principal field crop in this area and they cannot understand why their farmers should be forced to reduce their corn acreage (where corn can be grown economically and efficiently) while cotton farmers of the south are permitted to plant corn on their diverted acres.

It was found that the banks generally were anxious for loans and were not very happy over the commercial bond situation; smaller banks feeling that it was very difficult for them to pass on the real values thereof. Whenever they could get acceptable real estate mortgages they were glad to get them. They, however, were not very enthusiastic over Federal Housing mortgages on a 90% basis and the smaller banks especially were not making Federal Housing loans. Most of the banks were interested in getting automobile paper although I found some who did not approve of such paper at all. Some hope was expressed that prices of farm products would improve.

Banks in this district pay interest on savings and time certificates, rates ranging from 1½% to 2½%. One bank informed me that they were paying 1½% on savings and 2% on 12 month time certificates and were charging mostly 5% on loans (6% on some). They stated their rate on loans was low because of the tendency of individuals to withdraw deposits and make loans to their neighbors. I was told at other points of this same tendency.

Kansas City

Recent monetary developments that have stimulated the price of Government securities have left many banks with a nice appreciation in their bond account. Banks appear to be undecided whether to take this profit or to hold the long-term issues because of the better yield. Bankers also state that the lower the interest rate goes, the more cautious they become in making loans, the reason being that at present rates it takes three or four times as long to make losses good as it did formerly. The opinion is also expressed that interest rates have become so low that they are a positive handicap to business expansion, for with the earning power of capital so near zero there is little incentive to put it to work.

Quite a little is being heard to the effect that capital requirements are an important obstacle to membership on the part of eligible state banks. In this connection there is some discussion as to the desirability of having population the determining factor in capital requirements. The opinion is expressed that there are other equally significant factors. In Kansas, compulsory membership in the FDIC appears to be keeping many state banks from joining the System.

Bankers express the hope there will be some uniformity established in the classification of assets by the numerous supervising authorities. In particular, banks are touchy about the classification of loans as "slow". Both Kansas and Oklahoma bankers, who have been accustomed to making oil production loans, say that the classification of these loans as "slow" discourages them from making commitments. Under proration agreements, with the producer allowed to market only from 2 to 5 per cent of his potential production, it requires from eighteen months to three or four years to market enough oil to pay the costs of drilling and equipping a well. Bankers are very reluctant to take these long maturities, though amortized monthly, because of the fear of adverse classification by the examiner.

An official of a national bank in a Kansas county-seat town says that, even under present depressed conditions, they pay out on a busy day more than $10,000 in currency as compared with a like day a year ago. He gives it as his opinion that more people are paying small bills with cash in order to avoid a service charge, that the practice among business firms of meeting pay rolls in cash is growing, and that there is a marked preference on the part of farmers and others for cash instead of checks. The experience of this bank may throw some light on the reasons for the large amount of money in circulation even under present greatly depressed conditions.

Some banks report making FHA loans while others say they do not encourage them. There is complaint that Commodity Credit Corporation producers' notes are not profitable. Some banks are pushing personal loans, while others are expanding their real estate commitments. Bankers in Oklahoma and Kansas are disturbed because of the apparent over production of oil. At the same time, there are many reports that farmers are more optimistic because of the greatly improved farm situation.

Dallas

Pressure of other duties during the month prevented our officers from making their usual visits to member banks and only two such visits were made. However, eight officers attended the annual convention of the Texas Bankers Association at Fort Worth and one was present at a regional bankers' meeting in the Texas Panhandle.

The president of a bank which has deposits of $4,000,000 and which is located in the financial center of the largest oil field in Texas said he was glad the Board reduced reserve requirements as it gave his bank a needed increase in loanable funds.

On the other hand, the managing officer of a large member bank in the same town (with deposits of $6,000,000) stated that the lower reserve ratios are of little benefit to his institution, as its loanable funds have been ample all along to take care of the demand.

Delegates to the convention were in a cheerful mood as the result of the strength of the government bond market. Many of them reported they were carrying a substantial appreciation in their holdings of "governments", which they say more than offsets the depreciation they have in their rails and certain other issues.

San Francisco

Lane County, West Central Oregon

Lumber industry accounts for about 50% of income in the county. For the past few months many of the lumber mills have been running on curtailed production and others have closed down entirely, due to lack of demand and depressed lumber market.

There has been a very heavy carry-over of canned goods and one of the largest canneries has arranged financing through its bank to take up large balance due bank for Cooperatives in order to feel free to apply for further credit through that source to finance 1938 pack.

Building is not being carried on to any extent. A few houses have been built in Eugene in recent months by individuals for resale, but difficulty has been experienced in disposing of them. There is no immediate outlook for building new homes or commercial buildings, although in some towns there is a shortage of homes. The explanation is made that costs are too high and the future of business uncertain.

Business volume is considerably less than a year ago, deposits are less, and demand for loans weak.

Umpqua and Rogue River Valleys, South West Oregon

There are fewer turkeys being grown this year, due somewhat to more conservative attitude of feed companies in financing growers. Banks have financed only such growers as have substantial assets other than turkeys.

There will be a larger number of lambs for July 1st delivery than last year. Price outlook, however, is not very encouraging. Anticipated wool market is about half that received last year. Mohair market is also much lower. Sheep growers expect to operate at a loss this year unless market conditions improve.

Fruit and vegetable crops look good, but market outlook poor.

Fairly good prices were received for last year's pear crop, and dairy products until recently have brought profitable returns. As a result, the Rogue River Valley has not felt the recent business slump as much as other communities of the state. Business volume in most of the towns has been satisfactory. However, current outlook is not so good. Lumber operations have been curtailed recently, and, while a good fruit crop is in prospect, market conditions are disappointing. Recent reduction in the price of butter fat, which is 6 or 7 cents less than last year, will materially affect dairymen. Cattle prices are also much lower than last year.

Walla Walla Valley, Washington

The prospects for an exceptionally large wheat crop in the valley this season are very promising. It is the general opinion that no additional moisture is needed to mature the crop, as there have been recent heavy rains, although sustained dry winds would undoubtedly reduce yields. The price this year is disappointing and growers do not expect much more than 50 cents per bushel. Contracts have been made for fall delivery at 57 cents, but the market has since declined.

There also appears in prospect a good fruit crop, cherries especially. While production of apples will be heavy, the market is very weak.

Last season 2 1/4 million cases of peas were canned in this area, which includes Umatilla County, Oregon. About 300,000 cases will be carried over into the new season, and this year's production is being cut about 30%. The opening market for this season's pack is expected to be about the same as last year. Canning plants are operating at present on asparagus. A crop of about 70,000 tons is estimated. Farmers are getting $105 per ton and produce from 2 to 4 tons per acre.

Unemployment is normal. Deposits are down since the first of January and loans are also down with demand light. There is some building, but construction of homes is not expected to be as general as last year, when about 125 homes were built in Walla Walla.

Spokane, Washington

The present business depression appears not to have affected Spokane to the extent that it has other Pacific Northwest cities. There are no major industrial enterprises and labor troubles have been few and of a minor character. Farm income in the surrounding territory up to this time has been maintained at a reasonably high level and the expenditures in connection with the development of Grand Coulee Dam have been important in maintaining business activity. The outlook, however, is for a decline in business volume. While there is prospect at this time for an excellent wheat crop to be marketed in the surrounding territory, the income from this source is estimated at about 50% of last season. Livestock operators, especially sheep growers, are facing a similar situation.

There has been a considerable volume of home building the past year, and while the amount of new construction has decreased, many houses ranging from $4,000 to $6,000 are being erected.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

MAY, 1938

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	37	20	57	1	#	None	None
New York	119	62	181	9	2,635	1	65
Philadelphia	66	10	76	7	3,626	1	#
Cleveland	129	18	147	13	3,419	1	180
Richmond	41	25	66	14	1,958	2	490
Atlanta	20	14	34	3	1,650	None	None
Chicago	127	60	187	17	5,125	2	240
St. Louis	56	83	139	10	4,195	5	1,167
Minneapolis	140	236	376	7	740	3	755*
Kansas City	30	10	40	8	3,682	5	390
Dallas	2	None	2	2	1,950	None	None
San Francisco	56	18	74	25	1,883	3	114

Attendance not reported
* Includes one radio address

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Friday, June 24, 1938.

The following summary of general business and financial conditions in the United States, based upon statistics for May and the first three weeks of June, will appear in the July issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

In May and the first three weeks of June industrial activity showed little change from the April level. Wholesale commodity prices generally declined further, but in June wheat and cotton prices advanced and at the end of the period some other staple commodities showed increases.

Production

In May the Board's seasonally adjusted index of industrial production was at 76 percent of the 1923-1925 average as compared with 77 in April and an average of 79 in the first quarter of the year. Steel ingot production, which in March and April had been at a rate of 33 percent of capacity, averaged about 31 percent in May, and automobile output also showed a decrease. Textile production increased in May. Activity at woolen mills rose sharply and there was some increase at cotton mills, while silk mills showed a decline. Changes in output in most other manufacturing industries were largely seasonal in character. Output of crude petroleum was curtailed sharply in May, and bituminous coal production declined somewhat, while anthracite production increased considerably. Lake shipments of iron ore were in very small volume, reflecting both the low rate of activity in the iron and steel industry and the large supply of ore remaining from the previous season.

In the first three weeks of June output of steel and petroleum increased somewhat, but the rate of activity in these industries remained below the average for May. Automobile production showed a further decline and continued below sales, so that stocks of new cars were further reduced.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed a substantial increase in May, reflecting chiefly a marked rise in awards for publicly-financed projects. Contracts for residential building increased moderately and were in about the same amount as in May a year ago. Other privately-financed work remained in small volume.

Employment

Factory employment and payrolls continued to decline from the middle of April to the middle of May. There were further decreases in employment in the machinery, steel, and automobile industries and a sharp decrease in the number employed in the men's clothing industry. In most other manufacturing lines changes in employment were small in amount. The number employed at mines and on the railroads continued to decline.

Distribution

Department store sales declined considerably in May and the Board's seasonally adjusted index was at 79 percent of the 1923-1925 average as compared with 83 in April. Sales at variety stores and by mail order houses also decreased from April to May. Reports for the first half of June indicate about the usual seasonal decline in department store sales.

The volume of railroad freight traffic showed little change in May following sharp declines in previous months.

Commodity prices

Prices of both agricultural and industrial commodities decreased in the latter part of May. In the first three weeks of June wheat and cotton prices advanced, while prices of industrial products generally continued to decline.

Bank credit

Reserves of member banks continued to increase in May and June, largely as the result of Treasury disbursements from its deposits with the Reserve banks. Excess reserves increased chiefly at city banks, reflecting retirement of Treasury bills and further expansion of bankers' balances.

Demand deposits at reporting member banks in 101 leading cities increased further during the first half of June, and total loans and investments, which had declined in May, also increased, reflecting substantial purchases of United States Government obligations by New York City banks.

Money rates

Yields on Treasury bonds declined further in the four weeks ending June 18, and those on Treasury notes reached new low levels. Rates on open-market commercial paper declined somewhat about the middle of June.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 23, 1938.

Dear Sir:

It is desired to obtain reports as of June 30, 1938, from all holding company affiliates which hold general voting permits, in order that the respective Federal Reserve banks and the Board may have information as of a uniform date regarding the financial condition and management of such holding company affiliates and their relations with subsidiary banks and other organizations, and as to compliance by such holding company affiliates with the provisions of agreements executed by them and with the requirements of the law.

There is inclosed a copy of a form for such reports, additional copies of which are being forwarded to your bank under separate cover. Please deliver immediately to each holding company affiliate which has its principal office in your district and which now holds a general voting permit three copies of the form, with the request that the report be filed in duplicate with your bank not later than August 1, 1938. One complete copy of each report filed with your bank should be forwarded promptly to the Board. After you have had an opportunity to review the reports filed, it will be appreciated if you will forward to the Board any additional information, comments, or suggestions which you may have regarding each case.

When delivering the report forms to any member or nonmember insured banks in your district which are holding company affiliates and which hold general voting permits, please advise such banks that they may omit the following data requested in the report forms:

Page 1 - Balance Sheet
Page 2 - Statement of Income
Page 2 - Analysis of Earned Surplus
Page 2 - Analyses of Other Surplus and
Reserve Accounts

Page 3 - Schedule A - Securities (Other than Securities of Affiliated Organizations)
Page 5 - Schedule E - Notes Payable
Page 5 - Schedule F - Accounts Payable
Page 6 - Capital Stock
Page 8 - Supplemental Information - Items 1, 2, 5, and 6.

In any group in which there are two holding company affiliates, detailed information need not be duplicated in the reports filed by the holding company affiliates, but such of the detailed information submitted by one holding company affiliate as is applicable to the other may be included by reference in the report submitted by the latter.

In obtaining these reports, the Board desires to avoid placing any unnecessary burden upon holding company affiliates. Accordingly, the inclosed form has been drafted to provide a convenient means for furnishing the information which is desired at this time. However, if in the ordinary course of its affairs a holding company affiliate prepares financial or statistical data which contain the information requested in the report form, copies of such data may be submitted in lieu of the report form or such portions thereof as are covered by the holding company affiliate's own financial or other statements. It is, nevertheless, essential that all details of the information requested in the inclosed form be clearly covered in the data submitted by the holding company affiliate as of June 30, 1938. Regardless of whether the information furnished by the holding company affiliate is supplied in the form provided or in some other form, it is desired that an officer of the holding company affiliate certify that the report (including all accompanying schedules, statements, and other data) has been examined by him and is, to the best of his knowledge and belief, a true, correct and complete report.

Attention is directed to the fact that the holding company affiliate is requested to submit financial statements as of June 30, 1938, of each of its subsidiaries and each other affiliated organization, as explained and with the exceptions indicated in item 8 on page 8 of the report form.

Since holding company affiliates have not heretofore been requested to submit reports of this kind to the Board of Governors, it will be appreciated if you will explain the nature and purpose of the report and arrange for representatives of your examination department to render whatever assistance may be necessary in compiling the data requested.

In view of the desirability of obtaining periodically, as of uniform dates, certain information regarding holding company affiliates which hold general voting permits, consideration is being given to requesting such holding company affiliates to submit annual reports, beginning with a report for the year ending December 31, 1938, similar to the form inclosed herewith. We shall appreciate your comments and suggestions regarding the form, together with the comments and suggestions of the examination department of your bank, based upon study of the form as now designed and upon experience with it in obtaining the reports as of June 30, 1938.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-268

DIVISION OF EXAMINATIONS

June 24, 1938.

Dear Sir:

In connection with a study recently made as to the ratings on January 1, 1938, of bonds rated B1/ or higher on January 1, 1928, Standard Statistics Company, Inc., has prepared a chart showing the record of its bond quality ratings for the 10-year bond cycle. It has occurred to us that this chart, together with the brief statement on the reverse side regarding bond quality ratings, might be of interest to you and your examiners. Accordingly, there are inclosed several copies of the chart for your use.

You will understand, of course, that it is not the purpose of this letter to recommend any particular rating service and that the material is being sent to you merely as a matter of information in view of the general interest in bond quality ratings.

Very truly yours,

Leo H Paulger

LEO H. PAULGER,
Chief, Division of Examinations.

Inclosures.

TO VICE PRESIDENTS IN CHARGE OF EXAMINATIONS AT ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1938.

Dear Sir:

Referring to the Board's letter of July 26, 1935 (X-9271), with respect to the audit of the accounts of the Fiscal Agent of the Board of Governors by the auditor of the Federal Reserve Bank of Cleveland, there is transmitted herewith, for your information, a copy of the auditor's certificate in connection with his audit of the Board's accounts for the period January 1 to May 31, 1938, inclusive.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-269-a

I, F. V. Grayson, hereby certify:

(a) That a complete audit has been made of all entries in the accounts, "Board of Governors of the Federal Reserve System-Special Fund", "Board of Governors of the Federal Reserve System-Building Account", "Board of Governors of the Federal Reserve System-Fiscal Agent", and "Board of Governors of the Federal Reserve System-Fiscal Agent Building Account", for the period January 1 to May 31, 1938, inclusive.

(b) That all cash receipts received by the Board as shown by "Collection Schedules" furnished the Fiscal Agent by the Secretary's office and as shown by "Deposit Letters" prepared by the Fiscal Agent have been deposited by the Fiscal Agent and properly credited by the Federal Reserve Bank of Richmond in the account, "Board of Governors of the Federal Reserve System-Special Fund".

(c) That all remittances made direct to the Richmond bank for the account of the Board of Governors of the Federal Reserve System by the Federal reserve banks and others in compliance with the Board's instructions have been properly credited to the accounts, "Board of Governors of the Federal Reserve System-Special Fund" and "Board of Governors of the Federal Reserve System-Building Account."

(d) That each expenditure made by the Fiscal Agent was properly authorized by an administrative officer of the Board.

(e) That the items of receipts and expenditures shown by the books of the Fiscal Agent have been reconciled with the items shown in the statements of the Board of Governors of the Federal Reserve System's accounts prepared by the Federal Reserve Bank of Richmond.

(f) That the balances in each account as shown by the books of the Fiscal Agent have been reconciled with the balances standing to the credit of the Board of Governors of the Federal Reserve System on the books of the Federal Reserve Bank of Richmond as certified by the auditor of that bank.

(g) That all "Transfers of Funds" have been properly authorized by the Secretary of the Board or a member of the Board.

Respectfully submitted,

(Signed) F. V. Grayson

Auditor

June 23, 1938

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-270

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 25, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

<u>NOZTAB</u> - Treasury Bills to
be dated June 29, 1938, and
to mature September 28, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-271

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 29, 1938.

Dear Sir:

The Office of the Comptroller of the Currency has advised us informally that it has forwarded to each Federal reserve bank a supply of copies of the "Investment Securities Regulation" promulgated by the Acting Comptroller under date of June 27, 1938, and that it has distributed copies of the regulation to all national banks.

It will be appreciated, therefore, if you will send copies of the regulation to all State member banks in your district.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 30, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

NOZTEX - Treasury Bills to be dated July 6, 1938, and to mature October 5, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 4, 1938.

Dear Sir:

You will recall that the Board's letter (X-9755, Reg. T-50) of December 2, 1936, indicated that, notwithstanding the transfer of the nonstatutory duties of the Federal Reserve Agent to the Federal Reserve bank, the then existing provisions of section 11(c) of Regulation T contemplated that the Federal Reserve Agent would continue to execute and send the certificates and notices of the filing of F.R.B. Form T-2 agreements.

It will be noted that the equivalent provisions have been changed in Regulation T, as revised effective January 1, 1938, and that this change is also reflected in the Forms T-1, T-2, and T-3, as revised effective that date. It is suggested that the duties in connection with these agreements be taken over by the Federal Reserve bank in accordance with these changes.

Section 5(b) of the revised regulation states that:

"Blank forms of such agreements, information regarding their filing or termination, and information regarding the names of nonmember banks for which such agreements are in force, may be obtained from any Federal Reserve bank."

In connection with questions regarding the termination of such agreements, there is attached for your information a copy of a letter and inclosure which was addressed to the President of a Federal Reserve Bank. It is suggested that nonmember banks inquiring as to the procedure for terminating their agreements be advised as indicated in the inclosure and that your bank proceed as there indicated in connection with the termination of any such agreements.

Very truly yours,

S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

December 20, 1937.

Mr. ________________, President,
Federal Reserve Bank of __________,
______________, ________________.

Dear Mr. ______________:

For your information there is attached a copy of a letter which is being addressed to Mr. _______________, Treasurer, The ______________ Trust Company, _____________, ______________, regarding the procedure for terminating the agreement which that bank executed to qualify as a bank from which it is lawful for members of national securities exchanges and certain brokers or dealers to borrow in certain circumstances.

If The ______________ Trust Company should take the suggested steps for terminating its agreement, it will be appreciated if you will advise the Board of this fact and of any other relevant facts which you may already have available regarding the matter, and give the Board your recommendation as to whether the Board should grant its consent to the termination of the agreement. It will also be appreciated if you will forward to the Board the certificate evidencing the filing of the agreement which is returned by the bank, or the affidavit forwarded in lieu thereof, and one copy of the certified resolution forwarded by the bank.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Attachment

S-60-b
Reg. T-65

December 20, 1937.

Mr. ________________, Treasurer,
The _________ Trust Company,
_______________, ___________.

Dear Sir:

Reference is made to your letter of October 22, 1937, in which you inquire as to the procedure for terminating the agreement which your bank executed to qualify as a bank from which it is lawful for members of national securities exchanges and certain brokers or dealers to borrow in certain circumstances.

The Securities Exchange Act of 1934 does not specifically provide for termination of such agreements otherwise than for violation, and the original Act also contained no provision to prevent liability from arising as the result of an act done or omitted in reliance upon a rule or regulation which might be issued by the Board under the Act and subsequently held to be invalid. In view of the doubts arising from these facts, in 1934 the Board expressed the opinion, as indicated at page 687 of the inclosed copy of the October 1934 Federal Reserve Bulletin, that it could not safely sanction a voluntary termination of such an agreement.

Since that time section 23(a) of the Securities Exchange Act has been amended by the Act of May 27, 1936, so that it now provides that:

> "No provision of this title imposing any liability shall apply to any act done or omitted in good faith in conformity with any rule or regulation of the Commission or the Board of Governors of the Federal Reserve System, notwithstanding that such rule or regulation may, after such act or omission, be amended or rescinded or be determined by judicial or other authority to be invalid for any reason."

Recently the question has been carefully reexamined and in the light of all the facts, including the amendment to the statute, it has been concluded that it would be appropriate for the Board to approve the voluntary termination of such agreements in certain circumstances. This view regarding such agreements is incorporated in section 5(b) of the revision of Regulation T which becomes effective January 1, 1938, and of which a copy is inclosed.

Accordingly, if your bank does not have outstanding any loan of the type covered by the agreement and would like to terminate the agreement pursuant to this provision, it is suggested that the board of directors of your bank adopt a resolution substantially in the form attached. In such event two certified copies of the resolution should be forwarded to the Federal Reserve Bank of ________, together with any certificate or certificates which were issued to your bank to evidence the filing of the agreement. In case such certificate has been lost or destroyed, an affidavit of an officer of your bank as to such loss or destruction should be forwarded to the Federal Reserve Bank of ________, in lieu of the certificate. When these steps have been taken, the Federal Reserve Bank of ________ will communicate with the Board and the Board will then be in a position to give consideration to the termination of your agreement pursuant to this provision and advise you further.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosures.

S-60-c
Reg. T-65

RESOLVED, That the ____________________________ of
(indicate officer by title)
this institution be and hereby is authorized, in the name and on behalf of this institution, to certify to the Board of Governors of the Federal Reserve System pursuant to section 5(b) of that Board's Regulation T that this institution does not make nor have outstanding any loan of the type covered by the agreement which this institution filed with that Board pursuant to section 8(a) of the Securities Exchange Act of 1934, and to take such other steps as may be prescribed by that Board for the termination of such agreement.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-61
Reg. T-66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 4, 1938.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Extensions of Time by Business Conduct Committees in Connection with Cash Transactions under Revised Regulation T". If you deem it advisable you may send copies of this ruling to any national securities exchanges in your district and advise them of the fact that it will appear in the Bulletin.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Extensions of Time by Business Conduct Committees
in Connection with Cash Transactions
Under Revised Regulation T

Section 4(c) of Regulation T, as revised effective January 1, 1938, provides for a special cash account, and the section contemplates that the usual purchase or sale in such an account will be settled in full by the customer not later than 7 days after the transaction. In connection with this time limit, however, certain exceptions are provided and the business conduct committees of national securities exchanges are authorized to extend the time in certain circumstances.

The Board recently considered a case in which a member of a national securities exchange who is domiciled in this country maintains for a customer who is domiciled abroad a special cash account that conforms to section 4(c) of the revised regulation. Securities sold "regular way" in this account are shipped by the customer to the member promptly after the sale. Due to the time required in transit, the average interval between the sale and the receipt of the securities by the member is greater than 7 days, but less than 15 days. Such sales and shipments are of frequent occurrence.

The inquiry indicated that the business conduct committee of the member's exchange was satisfied that the facts are such that under section 4(c) it would be justified in extending the time to 15 days separately for each such transaction if the member made a separate application in connection with each transaction. The member and the committee would, however, like to avoid the necessity for repeated separate applications and extensions on the occasion of each such transaction between the given member and customer.

The question presented was whether in the circumstances described the committee may, on the basis of a single application by the member, extend the period to 15 days for all transactions of the type described that the member may effect in the future for the customer named in the application. The Board expressed the opinion that section 4(c) permits such an extension of time, and that repeated individual applications and extensions in connection with such transactions between the member and the customer may thus be avoided.

S-62
Reg. A-4

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

December 31, 1937.

Mr. ____________________,
First Vice President,
Federal Reserve Bank of __________,
____________, ______________.

Dear Mr. ____________:

This refers to your letter of November 27, 1937, in which you raise certain questions as to the eligibility of paper for discount under Regulation A.

You first suggest the possibility that, in view of the ruling of the Board contained in its letter S-49 of November 23, 1937, a note given for the purchase of machinery for use by an individual, firm or corporation engaged in manufacturing or some other enterprise might be considered as given for an eligible purpose. Under the ruling referred to, paper whose proceeds are used by the maker to purchase goods for consumption may be considered as arising out of an actual commercial transaction, but in order to be eligible for discount the paper must meet the other applicable provisions of the law and the regulation, including the requirement that the proceeds shall not be used for "permanent or fixed investments of any kind, such as land, buildings or machinery, or for any other fixed capital purpose."

The Board has held in past years, as you point out, that agricultural implements which wear out rapidly and in most cases have to be replaced within a comparatively short time are not permanent or fixed investments, and likewise that tractors, although their use is extended over several seasons, are not fixed investments but, like horses and mules, are considered as being for current agricultural purposes. On the other hand, it has been held that motor trucks of a corporation furnishing motor transportation and silos constitute permanent or fixed investments within the Board's regulation.

It is believed that no general rule can be laid down in answer to the question whether the purchase of machinery constitutes a permanent or fixed investment or is for any other fixed capital purpose. Generally speaking, the purchase of machinery by a manufacturing concern, which is expected to last over a period of a number of years or indefinitely, would seem to constitute a permanent or fixed investment and, accordingly, a note given for this purpose would not be eligible for discount. However, there may be machinery of certain types which wears out rapidly and must be replaced within a comparatively short time, and the purchase of such machinery might be regarded as an eligible purpose. The question is one which appears to depend upon the type of machinery in question as well as the other facts and circumstances of the particular case and upon which no definite answer can be given in advance.

You also refer to the fact that there are many finance companies which, in addition to the business of financing the purchase and sale of goods which would give rise to eligible paper, are engaged in the business of making personal loans on chattels, endorsements or guaranties. You point out that in many instances the proceeds of such personal loans are not used for eligible purposes, and you inquire as to how to determine whether the notes of such finance companies engaged in various types of business represent borrowing to finance eligible or ineligible transactions. The Board appreciates the difficulty of this problem, but does not feel that it should attempt to make any general statement or ruling regarding it at this time. Here again it is not possible to give any categorical answer to the question, as the matter is one which can be determined definitely only in the light of the facts of specific cases as they may arise, bearing in mind the intention of the statute and the regulations that the proceeds of paper which is discounted should be used for commercial or agricultural transactions. By this it is not meant that the Board will not consider a question of this kind until a note of a finance company has actually been presented for discount at a Federal Reserve bank. If there is reason to feel that circumstances may arise in which the paper of a particular finance company may be offered for discount by a member bank at some later date and the member bank or the finance company itself desires to know in advance whether the nature of the business of the company is such that its paper might be considered as issued for an eligible purpose, the Board will be glad to give consideration to the question upon receipt of full information as to the facts in accordance with the Board's letter of October 25, 1937, S-39.

We regret that we are unable to make our replies to your inquiries in this connection more definite. In the nature of the questions, however, it is not believed that it is feasible to undertake to answer them more specifically at this time in the absence of the facts of particular cases. In general it may be said that in its revision of Regulation A and in the rulings which have been issued since the regulation was promulgated it has been the purpose of the Board to interpret the law on the question of eligibility in as liberal a manner as seemed to be justifiable and practicable.

It is hoped that this discussion of the questions which you have raised may be of some assistance in your consideration of these problems.

Very truly yours,

(Signed) Chester Morrill
Chester Morrill,
Secretary.

S-63

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 6, 1938.

Dear Sir:

There is attached a copy of a letter which the Securities and Exchange Commission recently referred to the Board from Mr. J. W. Brislawn, Secretary of the Washington Bankers Association. It will be noted that this letter asked how nonmember banks are informed of rulings under Regulation U, and that the reply, of which a copy is also attached, indicated that arrangements were being considered for bringing such rulings specifically to the attention of nonmember banks.

It seems preferable for such advice to come to a nonmember bank from the Federal Reserve bank of its district rather than from the Board of Governors in Washington. Accordingly, it will be appreciated if you will send to each nonmember bank in your district copies of all rulings regarding Regulation U that have been published in the Federal Reserve Bulletin, indicating those superseded by amendments, and arrange to send such banks copies of all such rulings that may be published in the future. For your convenience there is attached a list indicating such rulings that have been published, and also indicating those which have been superseded by amendments..

It is suggested that, in order to avoid any misunderstanding it be made clear to the nonmember banks that copies of the rulings are being sent to them merely in order to assist them in keeping currently informed regarding interpretations of the regulation, copies of the regulation having been forwarded to them when it was last reprinted. You also might take the opportunity to point out that inquiries regarding the regulation should be submitted to your bank rather than to the Board, and that your bank will be glad to be of assistance in connection with such questions.

The Board wishes to leave the procedure in this matter entirely to the discretion of each Federal Reserve bank. However, if any Federal Reserve bank should desire, the Board would be glad to mimeograph copies of past or future published rulings regarding Regulation U and forward them to the Reserve bank to be distributed to the nonmember banks in its district. In the case of such rulings published in the future, the Board would be glad to have additional copies printed from the Bulletin type and forwarded to any Reserve bank that would like to use such copies.

It will be appreciated if you will advise the Board as to the procedure which you adopt in this connection and as to whether you would like to have the Board supply your bank with any mimeographed or printed copies of rulings.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

C
o
p
y

Seattle, Washington
November 3, 1937

Mr. Day Carr, Regional Administrator,
Securities Exchange Commission,
1407 Exchange Building,
Seattle, Washington.

Dear Mr. Carr:

We have before us Regulation U and the Supplement thereto of the Board of Governors of the Federal Reserve System effective November 1, 1937. We are not so much concerned with the subject matter of the Regulation or the Supplement since we believe its terms are fairly understandable to those to whom it applies.

The question that is raised and to which we have not thus far found a satisfactory answer is, "Does this Regulation and the Supplement thereto apply to all banks regardless of their not being members of the Federal Reserve System but banks which are chartered by the states?"

In the Regulation, as amended to September 1, 1937, page four, there are set forth definitions of certain terms as used in the Securities Exchange Act of 1934.

> "(6) The term "bank" means (A) a banking institution organized under the laws of the United States, (B) a member bank of the Federal Reserve System, (C) any other banking institution, whether incorporated or not, doing business under the laws of any State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under Section 11(k) of the Federal Reserve Act, as amended, and which is supervised and examined by State or Federal authority having supervision over banks, and which is not operated for the purpose of evading the provisions of this title, and (D) a receiver, conservator, or other liquidating agent of any institution or firm included in clauses (A), (B), or (C) of this paragraph."

If Regulation U applies to banks that are not members of the Federal Reserve System, from what source shall they receive notice of the rulings applicable to them since ordinarily they would not receive the rulings of the Board of Governors of the Federal Reserve System?

Is it possible that the Securities Exchange Commission may take upon itself the duty of notifying the non-member banks of the application of the Security Exchange Act and rulings prepared under it to such banks?

Respectfully submitted,

(Signed) J. W. Brislawn

J. W. Brislawn, Secretary.

S-63-b

November 30, 1937.

Mr. J. W. Brislawn, Secretary,
Washington Bankers Association,
Seattle, Washington.

Dear Mr. Brislawn:

Reference is made to your letter of November 3, 1937, which the Securities and Exchange Commission has referred to the Board, with respect to the application of Regulation U to nonmember banks and the distribution to such nonmember banks of rulings regarding this regulation.

Regulation U applies to all banks, including State banks as well as national banks and nonmember banks as well as member banks. Each of the twelve Federal Reserve banks is glad to consider any questions regarding the regulation which may be presented by any bank in its district, and is glad to offer all possible assistance in this connection to banks which are not members of the Federal Reserve System as well as to banks which are members.

Rulings regarding the various regulations of the Board, including Regulation U, are published from time to time in the Federal Reserve Bulletin. While there has been no arrangement, other than the general facilities offered by the Federal Reserve banks, by which these rulings are brought specifically to the attention of nonmember banks, there have not been a great many such rulings in the past, and arrangements are being considered for directly advising nonmember banks of all such rulings. It is believed that such an arrangement, together with the facilities of the Reserve banks as mentioned above, will enable all banks to keep currently informed regarding the application of Regulation U and any rulings under the regulation.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

RULINGS PUBLISHED TO JANUARY 1, 1938
REGARDING REGULATION U

May 1936 Bulletin, p. 325 - Transfers of loans....In so far as ruling relates to transfers of loans from lenders other than banks, it was superseded by amendment No. 2 of Regulation U, as published at page 550 of the July 1936 Bulletin and included in current reprint of regulation.

June 1936 Bulletin, p. 420 - Interpretations of Regulation U.... Part 3 of ruling superseded by amendment No. 2 referred to above.

July 1936 Bulletin, p. 549 - Applicability of section 2(c) of Regulation U to security dealers "making a market" in registered stocks or purchasing an inventory of such stocks for resale.

July 1936 Bulletin, p. 549 - Applicability to collateral for loans made prior to May 1, 1936, of provisions in Regulation U governing withdrawal or substitution of collateral...Ruling superseded by amendment No. 3 of Regulation U, as published at page 718 of the August 1937 Bulletin and incorporated in current reprint of regulation.

July 1936 Bulletin, p. 549 - Applicability of section 2(f) of Regulation U to a loan to a dealer to purchase securities to comply with orders from customers.

April 1937 Bulletin, p. 294 - Determination of market value of stock for loan under Regulation U.

May 1937 Bulletin, p. 392 - Application of Regulation U to a loan to a securities dealer for the purpose of purchasing both registered and unregistered stocks.

August 1937 Bulletin, p. 715 - Transfers of loans under Regulation U....As indicated in footnote to ruling, a portion of ruling was superseded by amendment No. 3 referred to above.

August 1937 Bulletin, p. 716 - Application of Regulation U to the purchase of debentures.

August 1937 Bulletin, p. 717 - Application of Regulation U to a loan to an investment trust to retire debentures.

October 1937 Bulletin, p. 995 - Applicability of Regulation U to stock registered after loan is made.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

January 12, 1938.

Honorable J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. Comptroller:

This refers to Mr. Gough's letter of December 16, 1937, requesting a ruling on the question whether the provisions of section 22(g) of the Federal Reserve Act are applicable to executive officers of member banks who execute Commodity Credit Corporation notes on cotton.

It appears from the inclosures transmitted with Mr. Gough's letter that a producer of cotton desiring to obtain a loan on cotton on the forms prescribed by the Commodity Credit Corporation may deal directly with any bank or lending agency. The borrower executes a loan agreement which provides that he shall remain liable to the holder of the note for any deficiency only in the event that he does not reduce cotton acreage or production in accordance with the provisions of an agricultural conservation program offered by the Secretary of Agriculture pursuant to certain provisions of law, or has made any misrepresentation in connection with the loan, or in the event of a breach of warranty contained in the loan agreement. It is also provided that any holder of a note may declare it immediately due and payable if the price of cotton goes above a certain stated amount, upon discovery that the maker has made any misrepresentation in connection with the loan, upon any breach of warranty in the loan agreement, upon any failure on the part of the maker to comply with agreements in connection with a conservation program, or upon the filing by the maker of a petition in bankruptcy or for the composition or extension of debts under the Bankruptcy Act. In these circumstances, it appears that there is a contingent liability on the part of the maker of such a note.

The definition of the term "loan" contained in section 1(c) of the Board's Regulation O includes a contingent liability, and, accordingly, it is the view of the Board that the liability of an executive officer of a member bank as maker of a note on the form prescribed by the Commodity Credit Corporation representing a loan on cotton falls within the provisions of the Board's Regulation O.

In this connection, it is appropriate to state that the Board was furnished with a copy of a letter written by the Assistant Attorney General to the United States Attorney at ________, ________, under date of February 14, 1935, in which the view was stated that there is a contingent liability on the part of the borrower on loans made on Commodity Credit Corporation forms (which, it is understood, were at that time similar to the present forms) and that such liability was sufficient to bring the case within the scope of section 22(g) of the Federal Reserve Act as it then existed.

Very truly yours,
(Signed) L. P. Bethea
L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-65
Reg. H-12

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1938

Dear Sir:

As you know, section 10(c) of the Board's Regulation F, as amended effective December 31, 1937, provides that funds received or held by a national bank as fiduciary shall not be invested collectively except as permitted in section 17 of the regulation.

In the circumstances, the Board has revised its standard condition of membership numbered 5, as contained in Regulation H, to read as follows:

> "Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself."

The Board will prescribe the revised condition in the future for all applying State banks and trust companies exercising trust powers at the time of their admission to membership, and in any case in which you are furnished with telegraphic advice of the Board's approval of the particular application, through the use of the code word "ANCHOROOT", as defined in the Board's letter of February 11, 1936 (X-9486), the reference to condition numbered 5 will mean such revised condition.

The Board feels that any State member bank or trust company which has accepted condition numbered 5, as contained in Regulation H, or a condition having a similar effect, should be permitted to make collective investments of trust funds under the same circumstances and subject to the same requirements as are applicable to national banks. Accordingly, you are authorized, on behalf of the Board, to advise any such bank or trust

S-65
Reg. H-12

company in your district that a compliance with the provisions of sections 10(c) and 17 of Regulation F will be considered a compliance with the requirements of the condition to which the institution is subject.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL
RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-66
Reg. T-67

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1938

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Guarantees of Accounts Under Revised Regulation T". If you deem it advisable you may send copies of this ruling to any national securities exchanges in your district and advise them of the fact that it will appear in the Bulletin.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-66-a
Reg. T-67

Guarantees of Accounts Under Revised Regulation T

The Board has recently considered several questions regarding the provisions of section 6(c) of revised Regulation T which relate to guaranteed accounts.

Section 6(c) provides that in order for a guarantee to be given effect pursuant to that provision a duplicate original of the guarantee must have been filed with the secretary of a national securities exchange of which the creditor is a member or through which his transactions are effected. In response to a question as to whether this requirement would be satisfied if the creditor filed the original guarantee with the secretary of an appropriate exchange and merely kept a facsimile for his own records, the Board expressed the opinion that such procedure would comply with the filing requirements of section 6(c).

The Board also stated that if a guarantee was outstanding under the old regulation the adjustments made for such a guarantee pursuant to the old regulation need not be carried over to the new regulation. In effect, all adjustments for guarantees under the old regulation may be considered as having been automatically eliminated so far as the new regulation is concerned, and transactions effected under the old regulation pursuant to such an old guarantee need no longer be reflected in the guarantor's account.

A guarantee may not be given effect under section 6(c) if the guarantor is a creditor. The term "creditor" as defined in section 2(b) of the regulation includes, among other persons, every member of a national securities exchange, and the term "member" as defined in section 3(a)(3) of the Securities Exchange Act of 1934 includes, among other persons, "any firm transacting a business as broker or dealer of which a member is a partner, and any partner of any such firm". Accordingly, a partner of a member firm is a creditor within the meaning of this provision regardless of whether or not he holds an exchange membership, and a guarantee executed by such a partner may not be given effect under section 6(c) of the regulation.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1938.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Special Miscellaneous Account Under Revised Regulation T." If you deem it advisable you may send copies of this ruling to any national securities exchanges in your district and advise them of the fact that it will appear in the Bulletin.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-67-a
Reg. T-68

Special Miscellaneous Account Under
Revised Regulation T

Section 4(f)(4) of revised Regulation T provides for a special miscellaneous account in which, subject to certain conditions, money or securities may be received from or for any customer and paid out or delivered to or for the customer without regard to his general account. Section 4(a) of the regulation provides that if a customer has with a creditor both a general account and one or more special accounts, the creditor shall treat each special account as if the customer had with the creditor no general account.

The Board recently considered a case in which a member of a national securities exchange demanded additional margin of a customer, the additional margin being demanded because of declines in the market value of the securities in the customer's general account and not because of any transaction in the account. In other words, the margin was demanded merely for the broker's own protection and not because of any requirement of the regulation. The question presented was whether cash deposited by the customer in response to such a demand for margin may, without violation of the regulation, be placed in a special miscellaneous account. The Board expressed the view that such a deposit of cash in the special miscellaneous account would not constitute a violation of Regulation T.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1938.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Debiting of Transfer Tax Incident to Reborrowing of Securities Sold Short Under Regulation T". If you deem it advisable you may send copies of this ruling to any national securities exchanges in your district and advise them of the fact that it will appear in the Bulletin.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-68-a
Reg. T-69

Debiting of Transfer Tax Incident to
Reborrowing of Securities Sold
Short Under Regulation T

The first paragraph of section 6(g) of Regulation T, as revised effective January 1, 1958, provides:

> "Interest on credit maintained in a general account, communication charges with respect to transactions in the account, shipping charges, premiums on securities borrowed in connection with short sales or to effect delivery, dividends or other distributions due on borrowed securities, and any service charges (other than commissions) which the creditor may impose, may be debited to the account in accordance with the usual practice and without regard to the other provisions of this regulation, but such items so debited shall be taken into consideration in calculating the net credit or net debit balance of the account."

The Board recently considered a case in which it was necessary for a broker to reborrow securities which had been sold short in a customer's account, and to pay the amount of the Federal stock transfer tax which is incident to such borrowing. The adjusted debit balance of the customer's account exceeded the maximum loan value of the securities in the account, and the question presented was whether in such circumstances the amount of this tax could be debited to the customer's account pursuant to section 6(g) without obtaining additional margin in the amount of the tax. The Board expressed the opinion that this would be permissible.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-69

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 24, 1938

Dear Sir:

From time to time matters have arisen at the Federal reserve banks, the effective disposition of which made it advisable that they be taken up with a department or agency of the Government.

It has been the experience of the Board that more satisfactory results, from the standpoint of the System as a whole, have been obtained in such cases when the matter was first brought to the attention of the Board by the Federal reserve bank and in turn taken up by the Board, either separately or in conjunction with the Federal reserve bank, with the department or agency involved. Accordingly, it is suggested that when such a question arises in the future your bank communicate with the Board by letter or telegram advising in such detail as the circumstances may require regarding the matter and, if possible, the disposition which your bank would prefer to have made of it.

This suggestion, of course, does not apply to routine matters which relate to the performance of work by a Federal reserve bank as fiscal agent, custodian or depositary for a particular department or agency of the Government, but rather to other questions which the Federal reserve bank feels should be taken up with a Government department or agency or to questions which involve System policy or procedure. Also, it is not intended to change in any way the procedure with respect to foreign relationships of Federal reserve banks as set forth in the statement inclosed with the Board's letter of October 30, 1936.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

S-70
370

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

January 24, 1938.

Dear Sir:

Occasionally in the past a director of a Federal reserve bank has been appointed to serve also as a director of a branch of the bank. While it is recognized that valuable service has been rendered the Federal reserve banks and the respective branches in these cases, it appears to the Board, after having given careful consideration to the desirability of such dual service, that the stronger reasons appear to be against such appointments. Directors at the head office should be regarded as representing primarily the interests of the entire district rather than those of a single branch. Furthermore, service by different individuals on the branch boards will afford an opportunity to bring their counsel and influence to the System, and for closer contact with the fields of activity with which these directors are identified. Therefore, the Board has reached the conclusion that in the future the appointment of a director of a reserve bank to serve at the same time as a branch director should not be made.

Accordingly, the Board has amended its regulation with respect to the appointment of directors of branches of Federal reserve banks, a copy of which was attached to the Board's letter of January 4, 1937 (X-9778), by adding at the end of the second paragraph a new sentence reading as follows:

> "No director of a Federal reserve bank shall be appointed to serve as a director of a branch of the bank during the period of his service as a director of the Federal reserve bank."

Of course, this change in the regulation does not apply to Federal reserve bank directors who are serving as branch directors at the present time, but to all appointments hereafter made. A copy of the regulation as amended is inclosed with this letter.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

1. The board of directors of each branch of a Federal reserve bank shall consist either of seven members or of five members, as may be determined by the Federal reserve bank, subject to the approval of the Board of Governors of the Federal Reserve System. Where the board of directors of the branch consists of seven members, four shall be appointed by the Federal reserve bank and three by the Board of Governors, and, where the board consists of five members, three shall be appointed by the Federal reserve bank and two by the Board of Governors.

2. All directors shall be persons of high character and standing who have established reputations and ability to meet their financial obligations. They shall be persons whose business and financial interests are primarily within and representative of the branch territory rather than of interests controlled or owned outside the territory. The directors appointed by the Federal reserve banks shall be persons who are either well qualified and experienced in banking or actively engaged in agriculture, industry or commerce. The directors appointed by the Board of Governors shall be persons who are actively engaged in agriculture, industry or commerce and who are not primarily engaged in banking (although they may be stockholders or directors of banks). No director of a Federal reserve bank shall be appointed to serve as a director of a branch of the bank during the period of his service as a director of the Federal reserve bank.

3. All directors shall be citizens of the district and shall reside within the territory served by the branch, but at least one of the directors appointed by the bank shall reside outside of the city in which the branch is located.

4. One of the directors appointed by the reserve bank shall be the active manager of the branch and shall have the title "Managing Director".

5. The term of office for the director chosen by the reserve bank to act as Managing Director of the branch shall be one year, subject to reappointment from year to year, if such action be desirable.

6. The full term for other directors shall be three years where the branch board consists of seven members and two years where the branch board consists of five members. In order to make practicable an orderly rotation of branch directorships, the terms of directors, other than the Managing Director, shall be so arranged that the term of a director appointed by the Board of Governors and the term of a director appointed by the Federal reserve bank shall expire at the end of each year. No director, other than the Managing Director, who has had six or more years of continuous service, shall be reappointed as a director to take effect before the expiration of a period, immediately following such service, of at least two years at any branch having five directors or three years at any branch having seven directors.

7. The board of directors of each branch shall annually elect as chairman of the board the member appointed by the Board of Governors whose term of office expires with the current year.

8. In the event of a vacancy occurring in the board of directors of a branch of a Federal reserve bank, the appointment to fill such vacancy shall be made by the body making the original appointment and such appointment shall be for the unexpired term.

9. As provided in Section 3 of the Federal Reserve Act, directors of branches of Federal reserve banks hold office at the pleasure of the Board of Governors.

S-71
Reg. T-70

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1938.

Dear Sir:

It will be noted that at page 87 of the February 1938 Federal Reserve Bulletin there is a statement with respect to the status of rulings published regarding Regulation T prior to the revision of January 1, 1938.

As you know, there are also certain unpublished rulings regarding the old regulation, that is, unpublished mimeographed letters which were assigned Regulation T numbers prior to Reg. T-63. For the same reasons that most of the old published rulings may be disregarded, it should no longer be necessary to refer to any of the old unpublished rulings, except the following:

X-9879, Reg. T-53, dated April 24, 1937, regarding the use of unpublished rulings under Regulation T;

X-9880, Reg. T-54, dated April 28, 1937, regarding the meaning of the term "broker or dealer who transacts a business in securities through the medium of any such member";

X-9885, Reg. T-55, dated May 6, 1937, regarding the designation of certain securities by the Secretary of the Treasury for exemption;

S-13, Reg. T-56, dated June 7, 1937, regarding the question whether failure to call a security for trading prevents it from being a registered security; and

S-23, Reg. T-59, dated July 19, 1937, regarding the clearance of certain transactions through a cash account.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

S-72
Reg. D-8.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

February 5, 1938.

Mr. ____________, Vice President,
Federal Reserve Bank of ________,
______________, ______________.

Dear Mr. ____________:

This refers to your letter of January 25, 1938, and inclosures, requesting advice as to how member banks in your district should classify for reserve purposes certain "personal loan deposits".

It appears from the sample account book and note form of the ________ National Bank, __________, _____________, that the member bank makes loans to individuals through its personal loan department, taking in each case a promissory note payable at a specified date in the future, and requires the borrower to deposit with the bank a specified sum of money each month until the total of such deposits equals the principal of the loan, at which time the accumulated deposits are applied in payment of the loan and the note is canceled and surrendered. It is also understood that the borrower is furnished a book in which his monthly deposits are entered and which contains the following provision: "This book is subject to the terms of signed agreement made ________ day of ______________ and has been assigned to _________ National Bank as collateral".

We understand that the agreement referred to in the account book is the note evidencing the personal loan, which contains a provision that upon default in making the monthly deposits the note, for the full amount thereof less a credit for such deposits as have been made, shall become due and payable at the election of the payee.

It is our understanding that the borrower is not permitted to withdraw the funds deposited under the above plan and that interest is charged by the member bank on the full amount of the personal loan until maturity.

With reference to the question whether amounts deposited by the borrower constitute deposits for reserve purposes, your attention is invited to the ruling published at page 538 of the Federal Reserve Bulletin for September, 1931, which held, on similar facts, that funds deposited in "special accounts" in order to provide for the repayment of personal loans are deposits within the meaning of section 19 of the

Federal Reserve Act against which reserves must be maintained. This ruling was reaffirmed by the Board on July 11, 1936, in a letter to the Federal Reserve Bank of ______________. Accordingly, reserves are required to be carried against the deposits described in your letter. Since it is understood that interest is charged on the full amount of the loan until maturity, it seems clear that the monthly deposits can not be considered as partial payments on the loan.

You also ask to be advised as to how such deposits should be classified for reserve purposes. On the basis of the facts submitted, it is our view that the deposits evidenced by the book in question should be classified as "time deposits, open account" provided the particular contract made with the borrower provides that deposits shall be made during a period of not less than three months as required by footnote 2 of section 1(d) of Regulation D. If a case should arise in which the contract with the borrower provides that deposits are to be made during a period of less than three months, we will be glad to consider the question of classification upon receipt of a full statement of the facts of the particular case.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-73
Reg. P-12

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

February 4, 1938.

Mr. ____________, Vice President,
Federal Reserve Bank of __________,
______________, ______________.

Dear Mr. _________:

This refers to your letter of March 8, 1937, relating to an inquiry from __________________ Company, __________, __________, with respect to whether cash, notes receivable, and accounts receivable may be considered readily marketable assets for the purposes of subsections (b) and (c) of section 5144 of the Revised Statutes of the United States. As you have been advised, a reply to your letter has been deferred awaiting the development of experience through action by the Board on requests of the Commissioner of Internal Revenue for certifications in connection with claims of holding company affiliates for credits for income tax purposes. However, while no such requests have yet been received, it is felt that a reply should not be further delayed.

The Board feels that the question whether certain assets are readily marketable assets within the meaning of subsections (b) and (c) of section 5144 is a question of fact which should be determined primarily by the holding company affiliate itself, bearing in mind that the law apparently contemplates that the assets shall be of such a nature that their fair market value can be easily ascertained with reasonable accuracy and can be readily realized in the market at any time in order to pay assessments on bank stocks or to assist subsidiary banks through voluntary contributions. Assets of any kind, other than bank stocks, will satisfy the requirements of the law if they are in fact readily marketable. Quite clearly they need not consist only of stocks, bonds, and similar assets commonly known as "securities". On the other hand, in view of the nature of the present inquiry, it should be pointed out that "readily marketable assets" cannot be properly construed to include all assets which may be classified as "current assets". Thus, while notes, at least, may be readily marketable in some instances, notes and accounts receivable cannot be considered readily marketable assets merely because it is contemplated that they will be collected within a relatively short time. However, in the light of the purposes of the requirements under consideration, it is believed that cash, in the sense of United States currency and demand bank deposits, should be deemed to be a readily marketable asset within the meaning of such requirements.

It is trusted that the foregoing comments may be of assistance to ____________________ Company in determining what action it must take in order to comply with the statutory provisions in question and it will be appreciated if you will advise that organization concerning the Board's views.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 8, 1938.

SUBJECT: Annual Review of Capital Position of State Member Banks Subject to Condition of Membership Regarding Maintenance of Adequate Capital Structure.

Dear Sir:

The question has been raised in connection with the annual review of the capital position of State member banks referred to in the Board's letter X-9506, dated February 28, 1936, whether the ratio of capital to deposits, so far as demand deposits are concerned, should be based upon gross demand deposits or net demand deposits as defined in Regulation D.

For the purpose of the review, it is requested that the capital ratio be based upon total deposits; i.e., the total of time deposits and gross demand deposits, as defined in Regulation D.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 14, 1938.

SUBJECT: Industrial Loan Advances
to Protect Collateral.

Dear Sir:

For your information there is inclosed a copy of a letter sent to the Federal Reserve Bank of Richmond with respect to advances to protect collateral held by the Federal Reserve banks as security for Section 13b loans.

Very truly yours,

L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL
RESERVE BANKS EXCEPT RICHMOND

S-75-a

February 14, 1938.

Mr. J. S. Walden, Jr.,
First Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Walden:

In response to your inquiry of February 2, advances to protect collateral held by the Federal Reserve banks as security for Section 13b loans should be included in the calculation of the amount of Federal Reserve bank funds advanced and under commitment as reported on Form B-23.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1938

SUBJECT: Reimbursement of the Federal Reserve Banks for Expenses Incurred in Redeeming Adjusted Service Bonds.

Dear Sir:

There is inclosed a copy of a letter written to Mr. Wayne C. Taylor, Assistant Secretary of the Treasury, under date of March 4, 1938, with respect to the reimbursement of the Federal Reserve banks for expenses incurred by them in redeeming adjusted service bonds. As you know, the letter was presented to the Presidents' Conference by the Committee on Reimbursable Expenses, and approved by the Conference.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

March 4, 1938.

Honorable Wayne C. Taylor,
Assistant Secretary of the Treasury,
Washington, D. C.

Dear Mr. Taylor:

This refers to your letter of January 14, in which you advised that you would be glad to meet with Mr. M. J. Fleming, Chairman of the Presidents' Conference Committee on Reimbursable Expenses, and with Mr. Smead, of the Board's organization, at their mutual convenience for the purpose of discussing the question of reimbursing the Federal Reserve banks after December 31, 1937, for their expenses in redeeming adjusted service bonds.

On the morning of Tuesday, March 1, the Presidents' Conference Committee, consisting of Presidents McKinney, Martin and Leach, and Mr. Zurlinden, First Vice President of the Federal Reserve Bank of Cleveland, representing Mr. Fleming, Chairman of the Committee, and Mr. Smead met with Mr. Broughton and Mr. Kilby of your office and reviewed this question.

Mr. Kilby pointed out that while it had not seemed practicable to obtain an appropriation from Congress at this time for the purpose of reimbursing the Federal Reserve banks for their expenses in redeeming adjusted service bonds during the remainder of the fiscal year 1938 and for the fiscal year 1939, he believes the Department has sufficient funds to reimburse the Federal Reserve banks for such expenses incurred during the first six months of the calendar year 1938. It was further brought out in the conference that if such expenditures should continue to be relatively large after July 1, 1938, it would be possible to ask Congress in January 1939 for a deficiency appropriation to cover such expenses.

While the Presidents' Conference Committee feels that the Federal Reserve banks should be reimbursed for expenses incurred in redeeming adjusted service bonds, particularly so long as the expenses amount to such substantial sums as they have in the recent past, the members of the Committee expressed a willingness to go along with the program outlined to them by Messrs. Broughton and Kilby with the understanding, of course, that should the expenses during the last half of this year continue at or near the present level they would have the privilege of taking up with the Treasury the advisability of asking for a deficiency appropriation to take care of such expenses.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

March 10, 1938.

Dear Sir:

For your information there is inclosed a copy of a letter written to the Federal Reserve Bank of Boston with respect to charge-offs of losses on industrial advances and commitments for which reserves have been set up with the approval of the Board.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE
BANKS EXCEPT BOSTON

S-77-a
Reg. S-1

March 10, 1938.

Mr. R. A. Young, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Young:

This refers to your letter of January 20, 1938, in which you state that, anticipating that a loss would develop on an advance made under Section 13b of the Federal Reserve Act, your bank set up a reserve to cover such loss in the amount of $2,500 at the end of 1936; that after foreclosing and realizing upon all collateral held in connection with such obligation, and applying the proceeds against the principal of such obligation and expenses incurred therewith, there is an unpaid balance of $2,190.25; and that since it has been found that no further recoveries are possible from the obligor you ask the Board's authority to charge off the amount of the loss, $2,190.25, less the portion of the loss reimbursable by the participating bank, against the reserve, $2,500, previously set aside for such purpose.

Since the Board at the end of 1936 specifically approved setting aside a reserve of $2,500 to cover an anticipated loss on the advance, and since reserves set aside for losses on industrial advances are considered in the nature of valuation reserves, the Board considers that the action which it took in practical effect constituted an approval of the charge-off of a loss not exceeding such reserve and you are at liberty to make the proposed charge-off.

In order that we may be fully prepared to furnish adequate information regarding any such loss, the bank should satisfy itself that its records reflect all the facts upon which reliance is placed for justification of the reserve set up for any such loss and the charge-off thereof, not only in this but also in all other cases of advances made under Section 13b of the Federal Reserve Act.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

S-78
Reg. T-71

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

March 14, 1938.

Mr. ______________, Secretary,
Federal Reserve Bank of ______,
_______________, _____________.

Dear Mr. __________:

Reference is made to your letter of March 5, 1938, regarding the inquiry of the __________ Stock Exchange, as to the status under Regulation T of certain 3-1/2% trust receipts issued by the (A) Trust Company of _______, _______.

It is understood that the receipts were issued by the (A) Trust Company as a result of the failure of the (B) Trust Company of __________; that the face value of each receipt is backed by a like amount of the Town of __________, _________, 4% bonds, although the receipts are not guaranteed as to principal or interest by the Town of _________; and that the receipts are not registered on any national securities exchange.

In these circumstances, the Board agrees with your view that these receipts are neither registered securities nor exempted securities within the meaning of Regulation T and that, therefore, they would have no loan value in connection with a loan under the regulation for the purpose of purchasing or carrying securities.

As you mentioned, the securities could be given loan value by a bank in making a loan; and, of course, even a broker could lend on the receipts under section 4(f)(6) for any purpose other than purchasing or carrying or trading in securities, or could accept them under section 7(b) for his own protection without giving them loan value for the purposes of the regulation.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-79
Reg. T-72

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 17, 1938.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Time When Guarantee Is Filed With Secretary of Exchange".

Certain Regulation T rulings have been forwarded to you in the past with advice that they would be published in the Federal Reserve Bulletin and that you might send copies to national securities exchanges and inform them of the fact that the rulings would appear in the Bulletin. It was found that such rulings were published in the newspapers prior to their appearance in the Bulletin, although they had not been definitely released to the press. It has seemed advisable, therefore, that when a ruling is to receive such distribution, it be prepared as a statement for the press, and that an appropriate date of release be specified in order to permit sufficient time for the statement to reach all Federal Reserve banks prior to such date.

Accordingly, it will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Monday, March 21, 1938.

The following ruling will appear in the Federal Reserve Bulletin.

Time When Guarantee Is Filed With
Secretary Of Exchange

Under section 6(c)(2) of Regulation T, one of the requirements for a guarantee being given effect for the purposes of the regulation is that "a duplicate original of the guarantee has been filed with the secretary of a national securities exchange of which the creditor is a member or through which his transactions are effected".

The Board recently considered a case in which a creditor had received a guarantee that satisfied all other requirements for its effectiveness under the regulation, but the creditor's office was located at such a distance from an appropriate national securities exchange that it would require several days for the duplicate original to reach the secretary of the exchange by mail. The question presented was whether in such circumstances, if the creditor mailed the duplicate original to the secretary of the exchange and also advised the secretary of these facts by telegraph, the creditor might thereupon treat the guarantee as having been appropriately filed, instead of allowing time for the duplicate original to reach its destination.

It is recognized that filing requirements of other statutes or regulations frequently are held not to be complied with until the document in question has been received in the office of the person with whom it is to be filed. The Board expressed the opinion, however, that in view of the purposes of this requirement in Regulation T it would be proper in a case such as that described to treat the duplicate original of the guarantee as having been filed with the secretary of the exchange as of the time when the duplicate original has been mailed to him and he has been advised by telegraph.

S-80
Sec. 5136 R. S.-11

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

March 25, 1938.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

Subject: Amortization of premiums on bonds under the Comptroller's regulations governing the purchase of investment securities.

Dear Sir:

Inclosed for your information are copies of two letters dated March 24, 1938, from Mr. Paulger, Chief of the Board's Division of Examinations, regarding the amortization of premiums on bonds under the provisions of regulations of the Comptroller of the Currency governing the purchase of investment securities.

It will be appreciated if you will have this letter as well as letter S-53, which relates to a different phase of the same subject, brought to the attention of your examiners.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-80-a
Sec. 5136 R. S.-11

March 24, 1938.

Mr. ____________, Vice President,
Federal Reserve Bank of ________,
______________, ________________.

Dear Mr. __________:

A schedule of "Issues on which premium is not being amortized to maturity as required" was shown on page 12-E of the report of examination of ____________ State Bank, ______, ___________, as of January 31, 1938. Included in the schedule were four issues which, according to the schedule, had been purchased prior to February 15, 1936, the date of the promulgation of the Comptroller's regulations governing the purchase of investment securities.

The provisions of the Comptroller's regulations governing the purchase of investment securities relate only to securities purchased after the effective date of the regulations and do not apply to securities held at the time the regulations were promulgated. It is suggested, therefore, that this matter be brought to the attention of your examiners in order that such errors may be avoided in the future.

You will appreciate, I am sure, that this letter is not intended to suggest that the amortization of premiums, even if not required by law, is not altogether desirable and in accordance with sound banking practice. The letter is written only to guard against the treating of matters as violations of the law and the Comptroller's regulation, when actually they are not violations.

Very truly yours,

(Signed) Leo H. Paulger

LEO H. PAULGER,
Chief, Division of Examinations.

S-80-b
Sec. 5136 R. S.-11

March 24, 1938.

Mr. ____________, Vice President,
Federal Reserve Bank of ________,
________________, ______________.

Dear Mr. _________:

The following comment appears on page 21 of the report of examination of ______ Loan and Trust Company, __________, ________, as of January 28, 1938:

"In order to comply with the regulation of the Comptroller of the Currency, to which State member banks are subject, it is necessary to amortize the premium on all bonds carried above par, so that the premium will be extinguished before the maturity of the securities. This situation was discussed with the management and it was stated that the premium on three issues will be charged out."

The above comments were inapplicable in the situation inasmuch as the only bonds carried at a premium were U.S. Treasury Bonds and Federal Farm Mortgage Corporation Bonds (which, for the purpose of Section 5136, are considered as obligations of the United States) and such bonds as exempted securities are not subject to the provisions of the Comptroller's regulations governing the purchase of investment securities. It is suggested, therefore, that this matter be brought to the attention of your examiners in order that such errors may be avoided in the future.

You will appreciate, I am sure, that this letter is not intended to suggest that the amortization of premiums, even if not required by law, is not altogether desirable and in accordance with sound banking practice. The letter is written only to guard against the treating of matters as violations of the law and the Comptroller's regulation, when actually they are not violations.

Very truly yours,

(Signed) Leo H. Paulger

LEO H. PAULGER,
Chief, Division of Examinations.

S-81
Reg. D-9

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

March 22, 1938.

Mr. ________________, Vice President,
Federal Reserve Bank of ____________,
________________, ________________.

Dear Mr. ____________:

This refers to your letter of March 7, 1938, and inclosure, presenting the question whether amounts carried by The ________________ National Bank of ____________ in an account called "Special Reserve, Contracts Department" constitute deposits against which reserves are required to be carried with the Federal Reserve Bank of __________________.

You state that the national bank examiners have raised the question as to whether the amounts should not be treated as demand deposits subject to reserves rather than as "other liabilities." You further state that, since the release of the funds appears conditional, they being held to indemnify the bank in case of loss in its dealings with certain borrowers, and since a substantial portion of such funds reverts to the bank, you are inclined to the opinion that the items may properly be classified as "other liabilities."

It is understood that the account arises from the bank's installment financing activities wherein it makes an arrangement with an automobile dealer or other similar dealer to discount his contracts with the understanding that out of the proceeds of each contract a certain amount will be set aside in a reserve fund and will not be paid to the dealer until the contract from which it arose is paid in full; that all such amounts are available to the bank to cover losses sustained in the collection of any or all such contracts discounted for the dealer and may be applied by the bank against any other indebtedness incurred by the dealer; and that in actual practice half or less of such amounts is paid to the dealer, as losses generally consume some portion of the amounts and other portions are applied against other indebtedness of the dealer. Although it does not appear from your letter, it is assumed that the amounts held in the special reserve account are not segregated but are commingled with the other assets of the bank.

As you know, in a ruling published at page 572 of the Federal Reserve Bulletin for May, 1922, the Board laid down the "broad rule that all funds received by a bank in the course of its commercial or fiduciary business must be treated either as deposits against which reserves must be carried, or as trust funds subject to the ordinary restrictions and safeguards imposed upon the custody and use of trust funds". In that ruling it was made clear that even in the case of trust funds, if they were not segregated from the bank's other assets but were mingled with the bank's general funds, a deposit liability would be created against which reserves must be carried. This position was recently affirmed in the ruling published at page 113 of the February, 1937, Bulletin and in the ruling published at page 391 of the May, 1937, Bulletin. In the light of the principles stated in these rulings and on the basis of our understanding of the facts as stated above, it is the view of the Board of Governors that amounts carried in the special reserve account under consideration are deposits against which reserves are required to be carried with the Federal Reserve bank.

The fact that amounts carried in the special reserve account may not be withdrawn by the dealer and probably will be used by the bank at least in part to cover losses on the discounted paper or other indebtedness of the dealer is believed not to be a controlling consideration. In this connection, your attention is invited to the Board's letter of February 5, 1938 (S-72), which reaffirmed the position taken in a ruling published at page 538 of the Bulletin for September, 1931, to the effect that amounts carried in accounts opened to secure the payment of personal loans were deposits for reserve purposes, even though they could not be withdrawn by the depositor but were to be used solely for the purpose of paying the amount of the personal loan.

The question whether amounts carried in a special reserve account are demand deposits or time deposits will, of course, depend upon whether or not the agreement or arrangement under which the funds are held complies with the definitions in section 1 of Regulation D. In this connection, your attention is invited to the fact that all deposits which do not comply with the definitions of time deposits constitute demand deposits.

As heretofore stated, the Board's ruling in this case is based upon our understanding of the facts as set forth above, but if there should be any material variation between the actual facts and our understanding of them, the matter may require further consideration.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-82
Reg. T-73

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

March 21, 1938.

Mr. _________________,
Assistant Vice President,
Federal Reserve Bank,
_________, __________.

Dear Mr. __________:

Reference is made to your letters of February 9 and March 2, 1938, regarding a question which has arisen under Regulation T. The question which you present may be restated as follows:

> A customer has an account in which the adjusted debit balance exceeds the maximum loan value of the securities and in which there is required under Regulation T the deposit of $2,500 in connection with a transaction on a preceding day. The account includes a short position of 100 shares of X stock having a current market value of $5,000. The customer deposits with the creditor 100 shares of X stock to be delivered against the short position, and requests the creditor to permit him to withdraw on the same day $5,000 in cash. There are no other transactions in the account on the given day, and the $2,500 deposit is the only one required in the account because of any transactions on any previous day. May the creditor permit such withdrawal?

It is the view of the Board that in the circumstances stated, the receipt of 100 shares of X stock in the account to be delivered against the short position has the effect of reducing the adjusted debit balance of the account by $5,000 (the market value of the securities short) plus $2,500 (the margin required on the short position under the present supplement to Regulation T), or $7,500, while leaving unchanged the maximum loan value of the securities in the account. The creditor may, if he desires, treat the receipt of securities as consisting of two portions. One portion may be considered to be a "covering or other liquidating" transaction effected in the account for the purposes of section 3(e), in lieu of the deposit of $2,500 in connection with the transaction on the preceding day; and the remaining portion may be considered to be a deposit of securities in connection with a withdrawal. On this basis, the creditor may permit the withdrawal from the account on the given day of $5,000 in cash.

Very truly yours,

(Signed) L. P. Bethea
L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 29, 1938.

Dear Sir:

There is inclosed, for your information, a copy of a letter, dated March 23, 1938, received by the Board from Mr. Wayne C. Taylor, Assistant Secretary of the Treasury, with respect to reimbursing the Federal Reserve banks for expenses incurred in redeeming adjusted service bonds, and a copy of the Board's acknowledgment of Mr. Taylor's letter.

In connection with the statement in Mr. Taylor's letter with respect to studies of the basis for reimbursement used by the different Federal Reserve banks with a view to effecting more uniform charges for services rendered, the Presidents' Conference Committee on Reimbursable Expenses, as you know, has been giving this subject careful consideration for a considerable period of time. It is believed that instructions with respect to determining costs of the various fiscal agency operations, as now contained in the manual of instructions governing the preparation of functional expense reports, are about as satisfactory as can be devised. After consulting with Mr. Fleming, Chairman of the Presidents' Conference Committee on Reimbursable Expenses, and others, the Board has decided to have representatives of its Division of Bank Operations visit some of the Federal Reserve banks for the purpose of reviewing all fiscal agency expenses and the methods followed in determining charges to the Treasury and other Governmental agencies for work performed for them, with the hope that ways may be found to bring about a greater uniformity in the methods followed in determining such charges.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-83-a

TREASURY DEPARTMENT
WASHINGTON

March 23, 1938.

Dear Mr. Morrill:

Thank you for your letter of March 4, 1938, expressing the willingness of the Presidents' Conference Committee on Reimbursable Expenses to treat the matter of reimbursement for expenses incurred in redeeming Adjusted Service Bonds in the manner outlined at a conference held on March 1 in the Office of the Commissioner of the Public Debt.

In accordance with that agreement steps are being taken to make approximately $90,000 available to the Public Debt Service in order that vouchers from the Federal Reserve banks for expenses incurred from January through June of this year may be honored. I would like to point out that there is no assurance that these vouchers can be honored in their entirety if the total for the six months period exceeds $90,000. In this connection, it is understood that the Committee is studying the basis for reimbursement used by the different banks with a view to effecting more uniform charges for the services rendered.

It is also fair to state that the Department makes no commitment with respect to a possible deficiency appropriation to cover expenses incurred subsequent to July 1, 1938, in the event the Committee desired this action. As a practical matter, we feel that there will be a continuing diminution of redemptions and that certainly by July 1 next the work will have decreased to a point where it will be entirely reasonable to expect the banks to carry on without further reimbursement.

Very truly yours,

(Signed) Wayne C. Taylor

Assistant Secretary of the Treasury.

Chester Morrill, Secretary,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

S-83-b

March 29, 1938.

Hon. Wayne C. Taylor,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

Dear Mr. Taylor:

This will acknowledge receipt of your letter of March 23, 1938, in reply to the Board's letter of March 4, with respect to reimbursing the Federal Reserve banks for expenses incurred in redeeming adjusted service bonds. It is noted from your letter that you feel that, as a practical matter, there will be a continuing diminution of redemptions and that certainly by July 1, 1938, the work will have decreased to a point where it will be entirely reasonable to expect the Reserve banks to handle the redemptions without further reimbursement.

A copy of your letter is being forwarded to each Federal Reserve bank for its information.

Should the volume of redemptions continue on a large scale after July 1, 1938, the Reimbursable Expense Committee of the Presidents' Conference may wish to again review this matter with you.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

April 7, 1938.

Dear Sir:

At their conference held in Washington on February 28 and March 1, 1938, the Presidents of the Federal Reserve banks considered the recommendation of Presidents Martin and Fleming that it be the uniform policy of the Federal Reserve banks to favor the making of reciprocal arrangements between adjacent Federal Reserve districts which will allow a Federal Reserve bank, on request of member banks in its district or on request of a Federal Reserve bank in an adjacent district, to make shipments of currency to member banks in adjacent districts without expense to the member banks receiving the shipments. The Conference concurred in this recommendation with the understanding that any request to a Federal Reserve bank to enter into such an arrangement should originate with the member bank which is to receive the shipments and should be made to its own Federal Reserve bank.

The Board will interpose no objection to a Federal Reserve bank's entering into the arrangements set forth above, as approved by the Presidents' Conference. If and when your bank enters into such arrangements, advice thereof, including the names of the cities in other districts to which your bank is requested to make currency shipments will be appreciated.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-85
Reg. T-74

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1938.

Dear Sir:

For your information there is inclosed herewith a copy of a telegram recently received by the Board from one of the Federal Reserve banks, together with a copy of the Board's reply thereto, with regard to the interpretation of the word "committee" as used in sections 3(f) and 4(c) of Regulation T.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-85-a
Reg. T-74

April 2, 1938.

SIHLER
CHICAGO

Referring your telegram April 1. An individual as well as a group of individuals may be a "regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members". On the basis of your telegram indicating that the relevant functions are now properly vested in Smith, he is appropriate "committee" within meaning of Regulation T for extensions of time under sections 3(f) and 4(c).

BETHEA

S-85-b
Reg. T-74

TELEGRAM

1938 APR 1 PM 3 59

172 G D
CHICAGO APR 1-38-254P

PARRY
BOARD WASHINGTON

Under new constitution Chicago Stock Exchange now effective no provision made for business conduct committee but this function vested in president of exchange or such other officer or officers as he may designate. This function presently delegated to Smith Assistant Secretary thereby continuing function same channels as before but in view of word "committee" in section 3(f) officers of exchange would like to have approval of Board and they also suggest amendment in due course section 3(f) substituting word "authority" in place of "committee". Understand situation is similar connection with new setup New York exchange.

SIHLER

3P

S-86
Reg. O-30

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

April 7, 1938.

Mr. ____________, Vice President,
Federal Reserve Bank of ________,
______________, ________________.

Dear Mr. ________:

This refers to your letter of March 22, 1938, requesting a ruling as to whether the board of directors of a national bank may delegate to executive officers of the bank the power to renew or extend loans made to an executive officer prior to June 16, 1933.

The pertinent provision of section 22(g) of the Federal Reserve Act provides:

> "* * * that loans made to any such officer prior to June 16, 1933, may be renewed or extended for periods expiring not more than five years from such date where the board of directors of the member bank shall have satisfied themselves that such extension or renewal is in the best interest of the bank and that the officer indebted has made reasonable effort to reduce his obligation, these findings to be evidenced by resolution of the board of directors spread upon the minute book of the bank * * * ."

Similar requirements are contained in section 4 of Regulation O.

The fact that the statute requires a "resolution of the board of directors" spread upon the minute book of the bank as evidence that the "board of directors" shall have satisfied "themselves" as to the matters specified makes it clear that Congress contemplated action by the board of directors and not by a committee or officers of the bank. You are advised, therefore, that in order that a loan to an executive officer made prior to June 16, 1933, may be validly renewed or extended within the limitations of the law, the board of directors of a member bank must itself by resolution make the findings required by the statute and this duty may not be delegated by the board of directors to others.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 13, 1938.

Dear Sir:

The Board of Governors has considered the recommendations of the Leased Wire Committee as contained in the report of the Committee submitted to and approved by the recent Conference of Presidents, and has taken action with respect thereto as set forth below:

The procedure proposed in connection with the revision of the Federal reserve telegraph code is approved with the understanding that the subcommittee of the Leased Wire Committee will prepare a revision of the present code which will be submitted by the Leased Wire Committee to the Federal reserve banks and the Board for suggestions and approval before final printing.

The changes recommended by the Leased Wire Committee in the regulations governing telegraphic transfers of funds are being considered and you will be advised in due course of the decision reached.

The recommendation that salaries of operators and others assigned to the main lines of the leased wire system, overtime and supper money, retirement system contributions for current service, and printing, stationery and supplies be included in the expense of the main lines and shown in the monthly leased wire statement is approved, effective April 1, 1938.

The Board also approves the recommendation that, with the exception of section 16, the memorandum of instructions with respect to telegrams sent over the Federal Reserve Leased Wire System become effective immediately as superseding the old leased wire manual. However, since the studies of changes in routings that might be made in telegrams sent over the leased wire system which are being made by the American Telephone and Telegraph Company and the Western Union Telegraph Company will be available shortly, and since any substantial change in the routing of telegrams may have an effect upon the present policy of making a double charge for reimbursable telegrams sent over the main lines and also over branch lines, it is believed that no change should be made in the basis for counting words in telegrams until the subcommittee of the Leased Wire Committee has had an opportunity to review the studies submitted by the two companies. It is understood that each Federal reserve bank will make such distribution of the memorandum of instructions among the employees of the bank and branches as it deems necessary.

The Board concurs in the suggestion that each Federal reserve bank take up with the local office of the telephone company any matter which relates to interruptions in the service or the routine operation of the main line facilities used by the bank and that matters involving changes in facilities on the main lines or any change in the contracts covering the main lines be taken up with the appropriate company through the Board's offices in Washington.

It does not appear that action is required by the Board with respect to any of the remaining recommendations of the Leased Wire Committee.

Very truly yours,

S R Carpenter

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-88
Reg. O-31

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

April 12, 1938.

Mr. ______________, Vice President,
Federal Reserve Bank of __________,
_______________, __________________.

Dear Mr. _________:

This refers to your letter of March 12, 1938, inclosing a copy of a letter from Mr. _______, Executive Vice President of the _____ Trust Company, ______, _______, and asking that the Board pass upon the question whether Mr. __________, as Honorary Chairman of the board of directors of the trust company, should be regarded as an executive officer for the purposes of section 22(g) of the Federal Reserve Act and the Board's Regulation O.

It is noted that the by-laws of the trust company provide that the "office of Honorary Chairman of the board of directors shall be purely an honorary one and the incumbent thereof shall not be ex-officio an officer of the Corporation, nor shall he possess any powers nor be burdened with any duties." It is also noted that this office was created in January 1935 and has been held by Mr. ________ since that time.

As you know, the Board has consistently taken the position that it would not be justified in excluding inactive officers from the provisions of Regulation O for the following reasons which were contained in the Board's letter of December 30, 1937 (S-59):

(1) It appears that the principal purpose underlying the enactment of section 22(g) of the Federal Reserve Act was to prevent the exercise of undue influence by executive officers of member banks in obtaining credit from the banks they serve and it is the Board's view that the exercise of such undue influence may be present in the case of inactive or honorary officers;

(2) Congress did not make a distinction in section 22(g) between active and inactive officers and the legislative history of the section indicates that the chairman of the board of directors and the president of a member bank should appropriately be regarded as executive officers for the purposes of the law in question even though they may be inactive;

(3) From the standpoint of the public, persons having the usual titles of executive officers in member banks are considered as executive officers whether or not they are active, and the Board does not feel that it should give encouragement to the employment in an inactive capacity of persons who are given the titles of executive officers and held out to the public as such.

These reasons are believed to be applicable also to the case under consideration.

Moreover, the fact that the powers and duties of the Honorary Chairman are restricted by the by-laws of the bank does not alter the situation. In this connection, the Board has heretofore considered the suggestion that a provision be included in Regulation O to the effect that a person, even though he holds one or more positions specified in the regulation, should not be considered an executive officer of the bank if his duties were restricted by a resolution of the board of directors or provisions of the by-laws of the bank. The Board stated, however, that it did not feel that it should make such an exception. (See X-9478, January 31, 1936).

In the circumstances, you are advised that it is the Board's opinion that Mr. _______, as Honorary Chairman of the board of directors of the _________ Trust Company, is regarded as an executive officer for the purposes of section 22(g) of the Federal Reserve Act and the Board's Regulation O.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

April 11, 1938.

Mr. ____________, Chief Examiner,
Federal Reserve Bank of ________,
________________, ____________.

Dear Mr. _________:

The December 31, 1937 condition report of the ____________ Trust Company, _________, _________, showed in Schedule L, "Other Assets", an amount of $50,000 "Pledged with the __________ National Bank of ________ to secure excess deposits of the Town of _________". The condition report was accompanied with a copy of a letter from the president of the member bank to the effect that in accordance with a telephone conversation with your Examination Division the condition report had been changed by transferring the $50,000 in question from "Other Assets" to item 1(b) of Schedule I, "Due from banks elsewhere in the United States". It is our understanding that your bank also requested that the $50,000 be shown as "Cash pledged" against memorandum items 34 and 36(b) below liabilities.

It is assumed that, under an arrangement between the banks and the Town of ________, the ________ Trust Company has certain funds on deposit with the ________ National Bank of ________ which it does not have the right to withdraw without the consent of the Town of ______. On the basis of this assumption, it is the Board's view that the funds on deposit under this arrangement do not constitute "Balances due from other banks (except Federal Reserve banks and foreign banks)" within the meaning of the tenth paragraph of Section 19 of the Federal Reserve Act, as amended. As you know, the amounts reported against items 1 and 2 of Schedule I of condition reports of both national and State bank members are intended to represent the aggregate "amount deductible from demand deposits in determining amounts subject to reserve". This is indicated by the text matter appearing in parentheses following the caption of item 2.

In the circumstances, unless there are other facts which you feel should be called to our attention, it is suggested that the ________ Trust Company be advised that in the future such pledged correspondent balances should be reported in Schedule L, "Other Assets".

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 26, 1938.

SUBJECT: Examinations Made by
Assistant Examiners.

Dear Sir:

It has been noted that in some cases men holding commissions as Assistant Examiners have signed reports of examinations of State member banks made by the examination departments of Federal Reserve banks. This, it is believed, is an undesirable practice which should be discontinued.

As a general policy, examinations should be conducted by commissioned Examiners, and only in exceptional circumstances should they be conducted by Assistant Examiners and then only when the Assistant Examiner has the qualifications which an Examiner of necessity must possess for the purpose of such examination. In such circumstances, it is believed that the report should be signed by him as "Examiner" rather than as "Assistant Examiner", as a report signed by an Assistant Examiner may logically raise questions as to the qualifications of the man who made the examination and the soundness of the findings and recommendations contained in the report. This applies to the examinations of trust departments as well as to examinations of the banking departments.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1938.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Sale Of Securities Held In Account But Not Delivered Against Sale".

It will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Saturday, April 30, 1938.

The following ruling will appear in the Federal Reserve Bulletin.

Sale Of Securities Held In Account But Not Delivered Against Sale

In a case recently considered by the Board under Regulation T, the adjusted debit balance of a customer's general account exceeded the maximum loan value of the securities therein, and the account was "long" 100 shares of XYZ, a registered nonexempt security. On the day in question the customer sold 100 XYZ and instructed the broker not to deliver his "long" stock against the sale. This was the only transaction in the customer's account on that day. The question presented was whether any margin must be obtained because of the transaction.

The sale of XYZ stock with instructions not to deliver the stock held "long" in the account constitutes a short sale of the XYZ stock within the meaning of section 3(d)(3) of the regulation which provides that the adjusted debit balance of the account shall include:

> "the current market value of any securities (other than unissued securities) sold short in the account plus, for each such security (other than an exempted security), such amount as the Board shall prescribe from time to time in the supplement to this regulation as the margin required for such short sales, except that such amount so prescribed in the supplement need not be included when there are held in the

account securities exchangeable or convertible within a reasonable time, without restriction other than the payment of money, into such securities sold short;".

In view of this provision, the current market value of the securities sold short should be added to the adjusted debit balance. Since the XYZ stock held in the account could be delivered at any time against the short position, however, "there are held in the account securities exchangeable or convertible * * * into such securities sold short." Therefore, it would not be necessary to add any "margin * * * for such short sales."

Section 3(d)(7) of the regulation provides that there shall be deducted from the adjusted debit balance:

"the net proceeds of sale of any securities (other than unissued securities) sold for the account but for which payment has not yet been credited thereto."

The deduction made pursuant to section 3(d)(7) would, on the day of the short sale, exactly equal and offset the addition made pursuant to section 3(d)(3).

Accordingly, there would be no change in the adjusted debit balance of the account and, since there also would be no change in the maximum loan value of the securities in the account, the transaction would neither release margin nor require that margin be obtained.

S-92
Reg. T-76

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1938.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Effect of Purchase and Sale of Same Securities on Given Day".

It will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement.

Very truly yours,

L P Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Saturday, April 30, 1938.

The following ruling will appear in the Federal Reserve Bulletin.

Effect of Purchase and Sale of Same Securities
on Given Day

The Board recently considered a case under Regulation T in which transactions effected on Monday in a general account resulted in a requirement of $100 margin, and on the day following, Tuesday, a certain quantity of a particular stock was purchased and later in the day the same quantity of the same security was sold, resulting in a net profit of $150. There were no other transactions in the account on Tuesday.

The question presented was whether this purchase and sale could be treated, to the extent of $100, as a liquidation pursuant to section 3(e) of the regulation in lieu of a deposit of that amount of margin, and as also permitting a withdrawal of $50 on Tuesday pursuant to the second paragraph of section 3(b).

Sections 3(b) and 3(e) of the regulation read in part as follows:

> "(b) General rule. - A creditor shall not effect for or with any customer in a general account any transaction which, in combination with the other transactions effected in the account on the same day, creates an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account, or increases any such excess, unless in connection therewith the creditor obtains, as promptly as possible and in any event before

the expiration of three full business days following the date of such transaction, the deposit into the account of cash or securities in such amount that the cash deposited plus the maximum loan value of the securities deposited equals or exceeds the excess so created or the increase so caused.

"A transaction consisting of a withdrawal of cash or registered or exempted securities from a general account shall be permissible only on condition that no cash or securities need be deposited in the account in connection with a transaction on a previous day and that, in addition, the transactions (including such withdrawal) on the day of such withdrawal would not create an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account or increase any such excess.

* * * * *

"(e) Liquidation in lieu of deposit.* - In any case in which the deposit required by section 3(b), or any portion thereof, is not obtained by the creditor within the three-day period specified in that section, securities shall be sold or covering or other liquidating transactions shall be effected in the account, prior to the expiration of such three-day period, in such amount that the resulting decrease in the adjusted debit balance of the account exceeds, by an amount at least as great as such required deposit or the undeposited portion thereof, any resulting decrease in the maximum loan value of the securities in the account.

"* This requirement relates to the action to be taken when a customer fails to make the deposit required by section 3(b), and it is not intended to countenance on the part of customers the practice commonly known as 'free-riding' or 'three-day riding', to prevent which the principal national securities exchanges have adopted certain rules. See the rules of such exchanges and section 7(c) of this regulation."

The Board expressed the view that the purchase and sale of the same securities on Tuesday could be so treated. This follows from the fact that such purchase and sale would reduce by $150 any excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account. It seems proper to treat such reduction as consisting of two portions in the manner suggested.

As indicated in the footnote to section 3(e), that provision was not intended to countenance on the part of customers the practice commonly known as "free-riding" or "three-day riding", to prevent which the principal national securities exchanges have adopted certain rules. If the transactions on Tuesday were treated as indicated above, the liquidation in lieu of a deposit of margin would, of course, have to be considered in connection with such exchange rules.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 2, 1938.

Dear Sir:

At the recent Conference of Presidents approval was given to a recommendation of the Leased Wire Committee that certain changes be made in the regulations governing telegraphic transfers of funds for the purpose of clarifying the provisions of the regulations with respect to transfers of funds eligible for transmission over the Leased Wire System. The Board has approved the suggested changes as set forth in the report of the Leased Wire Committee and has amended the regulations as set forth in its letter of January 3, 1936, X-9411, to read as follows:

1. Telegraphic transfers of funds over the leased wires will be accepted from and paid to member banks only. They must represent bank balances and can be made only for round amounts, i.e., multiples of $1,000. The term "bank balance" shall be construed to mean an accumulation of funds comprising an established account carried by one bank with another bank. Transfers for the benefit or use of an individual, firm, corporation, or nonmember bank will not be made over the leased wires.

2. The information given in telegrams transferring funds over the leased wires must be limited to the name of the sending member bank, name of its correspondent member bank requesting the transfer, name of the member bank receiving credit, and name of its correspondent member bank.

3. The Federal reserve code, including test word, must be used for all messages involving the transfer of funds and, in the

interest of economy, all other telegrams should be sent in code when its use shortens the message materially.

4. In addition to the usual mail advice to the bank receiving credit for telegraphic transfers of funds, immediate advice by telegraph, or otherwise, should be given by the Federal reserve bank receiving the transfer in cases where the sending bank or the credited bank has stated that other than the usual mail advice is necessary, or where the nature of the transaction or the amount involved indicates that the additional expense is justified, as to which the receiving Federal reserve bank will exercise its discretion. All such wire advices should be at the expense of the bank receiving credit and, therefore, should be sent collect.

5. Requests for telegraphic transfers of funds for consummation on date of receipt should not be accepted by Federal reserve banks later than thirty (30) minutes prior to the closing hour of the Federal reserve bank to which transfer is to be made. Any telegraphic transfers of funds requested after such time will be made at the discretion of the Federal reserve bank receiving credit.

6. The leased wires shall not be used for tracing or advising payment or nonpayment of any noncash collection items, nor for transferring the proceeds thereof.

7. The leased wires shall not be used for reconciling exceptions in accounts between Federal reserve banks, except where a loss might be involved.

8. Any loss resulting from negligence on the part of the Federal Reserve System in the transmission of telegrams transferring funds over the leased wires through relay stations shall be borne by the sending Federal reserve bank, unless responsibility can be definitely placed upon the Federal reserve bank to which the telegram was addressed.

9. Telegrams must be worded as concisely as possible. Telegrams should not be sent when communication by mail will suffice. For the purpose of enforcing these regulations, provision should be made in each Federal reserve bank so that any misuse of the leased wires will be brought to the attention of a designated officer for reference to the originating department, or, in the case of incoming messages, to the sending Federal reserve bank.

The following clauses under the respective headings should be included by all Federal reserve banks in their circulars to member and nonmember clearing banks relating to telegraphic transfers of funds:

TRANSFERS OVER LEASED WIRES

1. Only transfers of bank balances in round amounts, that is multiples of $1,000, will be made over the Federal reserve leased wires. The term "bank balance" shall be construed to mean an accumulation of funds comprising an established account maintained by a member bank with its Federal reserve bank or with another member bank. Transfers for the benefit or use of an individual, firm, corporation, or nonmember bank will not be made over the leased wires.

2. Telegraphic transfers of funds over the leased wires will be made for and paid to member banks only. Such transfers will be made without cost to member banks.

3. The descriptive data in telegrams transferring bank balances over the leased wires must be limited to the amount to be transferred, name of the member bank to receive credit, and when necessary, name of its correspondent member bank, and name of member bank with which request originated.

4. Transfers of the proceeds of individual collection items or individual cash letters will not be made over the leased wires.

5. The Federal reserve banks maintain, at large expense, a leased wire system over which it is necessary to transmit a heavy volume of important communications. Member banks are requested to cooperate with us in attempting to avoid overcrowding the leased wires by not making requests for telegraphic transfers of small amounts, or those which can be made as well through the mails. Each Federal reserve bank reserves the right to decline to effect over the leased wires any transfer which, in its opinion, is an abuse of the wire transfer facilities.

TRANSFERS OVER COMMERCIAL WIRES

1. Telegraphic transfers of funds for any purpose and in any amount and without limitation as to descriptive data will be made over the commercial telegraph wires for member banks. While such transfers will be accepted from and paid to member banks only, they may be for the use of any bank, individual, firm or corporation.

2. Telegraphic transfers of bank balances in round amounts, that is multiples of $100, will be made over the commercial telegraph wires for nonmember clearing banks. Such transfers will be accepted from any member bank for the credit of any nonmember clearing bank,

and from any nonmember clearing bank for the credit of any member bank or any other nonmember clearing bank.

3. The cost of all telegrams between Federal reserve banks transferring funds over the commercial telegraph wires will be charged to the member and nonmember clearing banks for which the transfers are made. Member and nonmember clearing banks should prepay the cost of telegrams requesting such transfers, and telegrams to member and nonmember clearing banks advising credit will be sent "Collect".

LIABILITY OF THE FEDERAL RESERVE BANK

The Federal Reserve Bank of will use due diligence and care in the transfer of funds by telegraph to the receiving Federal reserve bank for credit to the account of the payee bank, but will not be responsible for errors or delays caused by circumstances beyond its control.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

May 4, 1938.

SUBJECT: Report of Standing Committee on Collections.

Dear Sir:

According to the minutes of the Conference of Presidents, held in Washington on February 28 - March 1, 1938, the Conference accepted the report of the Standing Committee on Collections, dated December 17, 1937, and approved the recommendations contained therein, some of which involved changes in the cash and noncash collection circulars of the Federal Reserve banks.

Since the Presidents' Conference referred certain additional questions regarding the collection services of the Federal Reserve banks to the Standing Committee on Collections, we conferred with the Chairman and another member of that Committee and were advised that the Committee anticipates submitting recommendations to the next Presidents' Conference which, if approved, will necessitate additional changes in the cash and noncash collection circulars of the Federal Reserve banks. We were also advised that changes recommended in the December 17, 1937, report were considered not to be of such immediate importance as to warrant reissuing the circulars until after the next Presidents' Conference has acted upon the recommendations to be contained in the forthcoming report of the Standing Committee on Collections.

Accordingly, the Board has deferred action until after the next Presidents' Conference on the recommendations contained in the December 17, 1937, report of the Standing Committee on Collections, except as to the recommendation that no shipping charges be absorbed by the Federal Reserve banks in handling negotiable securities received and forwarded for collection, which is noted without objection.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

April 14, 1938.

Mr. __________, Vice President,
Federal Reserve Bank of ______,
____________, ______________.

Dear Mr. _________:

This has further reference to your letter of March 8, 1938, with inclosures, receipt of which was acknowledged on March 14, 1938, concerning an inquiry from Mr. _________, Vice President and Trust Officer, National Bank of __________ and Trust Company, _________, ______, relating to the provisions of section 6 of Regulation F requiring the review of actions of trust department committees by the directors of a national bank.

It appears that the trust investment committee of National Bank of _______ and Trust Company (which also acts upon the acceptance and closing out or relinquishment of fiduciary accounts) keeps extensive minutes and that it is the practice to read such minutes at meetings of the board of directors and to have the directors approve any and all actions of the committee. However, the directors feel that too many details are being brought to their attention for their approval and that too much time is being consumed in that manner. Mr. ______ inquires how far it is necessary to go in order to comply with the requirements of Regulation F.

Section 6(b) of Regulation F provides, in part, as follows:

> "The board of directors is responsible for the investment of trust funds by the bank, the disposition of trust investments, the supervision of the trust department, the determination of the policies of such department and <u>for the review of the actions of all committees appointed by the board of directors for the conduct of the trust department</u>." (Underscoring added.)

The underscored provision contemplates that the directors shall take such action as is necessary to inform themselves concerning the manner in which the committees are performing their duties and the policies which are being pursued by the committees. However, while it definitely places upon the directors the responsibility for the review of the actions of all committees, it does not require that the directors read all minutes of all committees and formally approve each and every action taken by the committees. Various methods may be pursued in the proper discharge of this responsibility; that which is feasible for one bank may not be for another and the action which should be taken depends upon the particular circumstances involved. Since the regulation applies to all national banks, the Board feels that it should not destroy the intended flexibility of this provision by a precise statement concerning the action necessary to constitute compliance, but that this should be left to the exercise of sound judgment by individual banks.

It appears that Mr. ______ has in mind that his bank's trust investment committee might shorten its minutes in order to meet the directors' objections. Section 6(c) of Regulation F requires that the committee "keep minutes of all its meetings, showing the disposition of all matters considered by and passed upon by it" and, after providing for periodic reviews of assets of each fiduciary account by the committee, it requires that "a report of all such reviews, together with the action taken as a result thereof, shall be noted in the minutes" of the committee. While the regulation thus requires that the committee keep a record of all of its activities, it does not attempt to describe the manner in which the record should be kept. Clearly, it is not necessary to record verbatim everything which is said and to incorporate copies of all memoranda and other documents considered. However, there is a vast range between minutes containing unwarranted detail and those which are so sketchy as to be virtually worthless. Where the line should be drawn between these two extremes is a question which also must be left to the sound judgment of each bank. In deciding this question, however, it should be borne in mind that the minutes serve purposes other than to make information currently available to the directors; they should provide an adequate record for future reference, e.g., in the event the bank is called upon to explain action directed by the committee.

It appears that both Mr. ______'s letter and your proposed reply perhaps contemplate that the committee approval of the acceptance of trusts properly may be subsequent to the actual acceptance of the trusts by the bank. Section 6(b) of Regulation F provides that "the acceptance of all trusts shall be approved by the board of directors or a committee appointed by such board, and the closing out or relinquishment of all trusts shall be approved or ratified by the board of directors or a committee appointed by such board." It is believed that this provision clearly requires approval by the directors or the appropriate committee prior to the acceptance of a trust.

Since the advice contained in this letter differs in some respects from your proposed reply to Mr. ______, it is suggested that such reply be appropriately modified. The suggestion that your trust examiner will be glad to discuss the matter informally seems desirable and, if this suggestion is made, you may find it possible to eliminate from your reply some of the general discussion of directors' responsibilities under Regulation F which goes beyond that which is necessary to answer Mr. ________'s specific inquiry.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

May 21, 1938.

Mr. G. J. Oppegard,
Deputy Comptroller of the Currency,
Washington, D. C.

Dear Mr. Oppegard:

This refers to your letter of May 5, 1938, with regard to the applicability of section 22(g) of the Federal Reserve Act to a transaction involving an executive officer of a national bank. Your letter states that the wife of the president of the national bank, who is reputed to be highly responsible in her own right, gave her note in 1932 to such bank in the amount of $105,000; that the proceeds of such note were credited to the account of her husband; and that he has paid interest since the date of the note at the rate of 1 per cent per annum. Since the previous examination, however, it appears that this note has been removed from the assets of the bank and the personal note of the president of the bank, in an identical amount, has been substituted therefor.

While not specifically so stated in your letter, it is understood that the executive officer in question was not liable upon the note of his wife as maker, drawer, endorser, guarantor or surety, or otherwise obligated to the bank for the payment of the amount advanced on his wife's note. However, when the note of the executive officer was given to the bank in lieu of his wife's note, he became legally liable to the bank upon the indebtedness. This transaction, by which the bank acquired the note of the executive officer, constitutes a loan or extension of credit by the bank as defined in Regulation O. Inasmuch as it is stated that his wife is reputed to be highly responsible in her own right, it does not appear that the substitution of the executive officer's note was for the protection of the bank, nor does the transaction appear to be within any other exception to the provisions of the regulation. It must, therefore, be regarded as falling within the prohibitions of section 22(g) of the Federal Reserve Act and Regulation O.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-97
Reg. O-33

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

May 21, 1938.

Mr. E. H. Gough,
Deputy Comptroller of the Currency,
Washington, D. C.

Dear Mr. Gough:

This refers to your letter of April 30, 1938, with regard to the applicability of section 22(g) of the Federal Reserve Act to a transaction involving an executive officer of a national bank. Your letter states that a national bank purchased from one of its affiliates a note of Mr. __________, who is personal secretary to an executive officer of the national bank, and that the note in question was made for the accommodation of the executive officer and was guaranteed by such officer.

Section 1(c) of the Board's Regulation O defines the terms "loan", "loaning", "extension of credit", and "extend credit" to include the acquisition by discount, purchase, exchange, or otherwise of any note, draft, bill of exchange or other evidence of indebtedness upon which an executive officer may be liable as maker, drawer, indorser, guarantor, or surety. Since, as stated in your letter, the national bank purchased the note upon which one of its executive officers is liable as guarantor, it seems clear that the transaction falls within the provisions of section 22(g) and Regulation O. The fact that the note in question was acquired by the bank from its affiliate does not affect this conclusion.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

May 20, 1938.

Mr. ___________, Vice President,
Federal Reserve Bank of _______,
______________, ________________.

Dear Mr. ______:

This refers to your letter of May 2, 1938, and inclosures, requesting a ruling of the Board as to whether the acquisition by the ____ National Bank and Trust Company of ______, ______, _________, as trustee, of an obligation of the President of such bank falls within the provisions of section 22(g) of the Federal Reserve Act and the Board's Regulation O. In your supplemental letter of May 9, 1938, with regard to this question, you state that the President of the _____ National Bank and Trust Company of _____ gave his demand note dated November 14, 1930, in the amount of $5,000, to an individual; that the payee of the note died on June 11, 1933; that the bank qualified as executor of the payee's estate on June 22, 1933; and that the bank became trustee of such estate on November 26, 1934, and is still serving in such capacity. You also state that such note has not been renewed or reduced since the original date.

It appears that the bank acquired the obligation of its executive officer as trustee subsequent to June 16, 1933, but prior to August 23, 1935, at which time the statute in question provided a criminal penalty for a violation thereof. Therefore, the question whether a violation of such section is involved would depend upon the provisions of such section prior to the amendment of August 23, 1935. As stated in the Board's letter of January 16, 1936 (X-9449), any such violation is still subject to the criminal penalties and the determination of such question is a matter within the jurisdiction of the Department of Justice. As you know, the Board does not undertake to express opinions on apparent violations of criminal statutes. For your information, however, if the bank had acquired the note as trustee in the manner stated above after August 23, 1935, the Board would not interpose an objection to the transaction.

The question whether, aside from the provisions of section 22(g) of the Federal Reserve Act and Regulation O, the note has been properly retained as an asset of the trust depends upon factors of which we are not fully advised and this letter should not be considered an expression of opinion on this point.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

May 27, 1938.

Mr. ______________, Vice President,
Federal Reserve Bank of __________,
__________________, ______________.

Dear Mr. ________:

This refers to your letter of May 12, 1938, and inclosure, inquiring whether the liability of an executive officer of a member bank for the payment of a mortgage loan made by the Federal Land Bank of Baltimore or a mortgage loan made by the Land Bank Commissioner, to another person, under the provisions of the Emergency Farm Mortgage Act of 1933, as amended, should be reported by such officer to his board of directors, as provided in section 22(g) of the Federal Reserve Act and the Board's Regulation O.

Under the provisions of the statutes creating and defining the powers of the Federal Land banks it is provided, among other things, that such banks may issue and sell farm loan bonds, make real estate loans secured by first mortgages, borrow money, and accept deposits of securities or of current funds of national farm loan associations. Such banks may also be designated by the Secretary of the Treasury as depositaries of public money and may also be employed as fiscal agents of the Government. In this connection the Board has heretofore taken the position that a Federal Land bank is a "bank" within the meaning of section 8 of the Clayton Act. In the circumstances, it is the view of the Board that a Federal Land bank should properly be regarded as a "bank" within the meaning of that provision in section 22(g) of the Federal Reserve Act which requires an executive officer of a member bank to report his indebtedness "to any bank other than a member bank of which he is an executive officer."

While the Land Bank Commissioner has the power to make certain real estate loans, he does not have the power to accept deposits nor may he be designated as a depositary of public money or as a fiscal agent of the Government. It would seem, therefore, that the Land Bank Commissioner is not a "bank" within the meaning of section 22(g).

Accordingly, an executive officer of a member bank who is indebted to a Federal Land bank is required to report such indebtedness to his board of directors in accordance with the provisions of section 5 of the Board's Regulation O; but an indebtedness of an executive officer to the Land Bank Commissioner need not be so reported.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 6, 1938.

SUBJECT: Holding by Member Banks of Shares of Stock of Federal Savings and Loan Associations

Dear Sir:

For your information there is given below an excerpt from a letter recently sent to the Governor of the Federal Home Loan Bank Board with regard to the purchase and retention by State member banks of shares of stock of Federal savings and loan associations.

"As indicated in the inclosure with your letter of May 2, the Board of Governors has heretofore expressed the opinion that the provisions of section 5136 of the United States Revised Statutes forbid the purchase by member banks of shares of stock of Federal savings and loan associations. It is the view of the Board of Governors that the exemptions stated in section 5136 do not cover shares of stock of such associations and that the provisions of a State statute authorizing State banks to purchase such shares cannot exempt purchases by member banks, whether State or national, from the operation of the Federal statute.

"With respect to the second question presented in your letter, you are advised that it is the view of the Board of Governors that the provisions of section 5136 do not require State banks which have in good faith acquired shares of stock of Federal savings and loan associations or of other corporations while they were nonmember banks to dispose of such shares upon becoming members of the Federal Reserve System. Furthermore, it is not the practice of the Board of Governors to require as a condition of membership that banks dispose of stock, although it may be necessary in particular cases to require banks applying for membership to reduce undue concentrations in stock just as would be done in the case of undue concentrations in any other class of assets. A similar requirement might be necessary if it appeared that a bank contemplating membership had acquired stock for the purpose of evading the prohibition upon the purchase of stock by member banks."

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

June 7, 1938.

Mr. _________, Vice President,
Federal Reserve Bank of ____________,
______________, __________.

Dear Mr. ____:

This refers to your letter of May 10, 1938, in which you request advice on the question whether, in connection with the limitations on the discount of the paper of one borrower, which are contained in section 1(i) of Regulation A, it is proper to consider reserves for dividends payable in common stock as a part of capital and surplus.

This question has not heretofore arisen under the provisions of Regulation A, and, accordingly, the Board has not previously had occasion to express any viewpoint concerning it.

Section 1(i) of Regulation A reads as follows:

> "(i) Limitations. - The aggregate of notes, drafts, and bills upon which any person, copartnership, association, or corporation is liable as maker, acceptor, indorser, drawer, or guarantor, discounted for any member bank shall at no time exceed the amount for which such person, copartnership, association, or corporation may lawfully become liable to a national bank under the terms of section 5200 of the Revised Statutes of the United States, as amended. The law forbids a Federal Reserve bank to discount for any State member bank notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State member bank in an amount greater than that which could be borrowed lawfully from such State member bank were it a national bank."

It will be noted that the limitations contained in both the first and second sentences of the above provision, which are derived from the provisions of section 13 and section 9 of the Federal Reserve Act, are based upon the maximum amount for which one person may lawfully become liable to a national bank. In determining such maximum amount, it is necessary to consider both the statute and the rulings of the Comptroller of the Currency in administering the law. Since the Comptroller has taken the position that reserves for dividends payable in common stock may not be considered as capital or surplus under the provisions of section 5200 of the United States Revised Statutes, such reserves should not be considered as a part of capital or surplus in determining the maximum amount of the borrowings or liabilities of one person to a member bank under section 1(i) of Regulation A.

It may also be pointed out in this connection that, in order to comply with the spirit of the law, a Federal Reserve bank, in making advances to a member bank secured by paper eligible for discount, as well as in discounting paper for a member bank, should not acquire paper upon which one person is liable in an aggregate amount in excess of the limitations prescribed in section 1(i) of the regulation. On the other hand, however, in view of the fact that section 10(b) of the Federal Reserve Act was enacted subsequently to the provisions of the Federal Reserve Act relating to the amount of paper discountable for one borrower and in view of the purposes sought to be accomplished by the provisions of section 10(b), it is the Board's opinion that the limitations of section 1(i) of Regulation A and the provisions of law upon which they are based are not applicable to advances made under the provisions of section 10(b). It is assumed, of course, that a Federal Reserve bank, in extending credit in any case, will avoid the acquisition of an undue amount of paper upon which any one person is liable.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-102

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

June 15, 1938.

Dear Sir:

Recently one of the Federal reserve banks inquired whether the Board of Governors would have any objection to one of its officers allowing his name to be presented at a school district meeting for election as a member of the board of education of the local school district. The election was held at a meeting open to all residents of the school district and it was understood that in the past the elections had always been free from party politics and that the members of the board had served without remuneration.

In submitting the matter for consideration by the Board of Governors, the Federal reserve bank suggested that service upon a school board or board of education, when the appointment or election to such office is free from party politics, is a public service which officers and employees of Federal reserve banks should not be precluded from performing, and that, in order to avoid the necessity of asking the Board of Governors to pass on individual cases of this kind, the Board might consider the advisability of permitting officers and employees of Federal reserve banks to serve in such offices whenever, in the opinion of the board of directors of the bank, the service would be compatible with the resolution adopted by the Board on December 23, 1915, in which the position was taken that persons holding political or public office could not serve consistently as directors or officers of Federal reserve banks.

The Board is in agreement with this suggestion and approves a modification of the existing procedure so as to exempt from the necessity of presentation to the Board of Governors for consideration all cases of service of officers and employees of Federal reserve banks as members of school boards or boards of education when, after careful consideration, the board of directors of the Federal reserve bank is satisfied that the procedure followed in connection with the appointment or election to membership is entirely free from party politics, and that service on the board otherwise would be non-political in character.

In taking this action the Board has in mind that in some instances service on school boards and boards of education is closely associated with party politics. In one case that has come to its attention the election included a primary and general election conducted on the basis of political party affiliation of the candidates with only registered members of the party being entitled to vote in the primary and in that case the Board felt that the person should not serve. Therefore, each case presented to your board should be considered in the light of the facts in the particular case in order that your directors may be satisfied before approval is given that the service is entirely in harmony with the spirit of the resolution above referred to.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-103

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 20, 1938.

Dear Sir:

In order that the Board may be able to furnish the United States Civil Service Commission certain data with respect to the number and salaries of the personnel of the Federal reserve banks for the use of the Bureau of Labor Statistics, it will be appreciated if you will furnish the Board with a statement as of June 30 as well as December 31 each year, made out in accordance with the instructions and form contained in the Board's letter of December 18, 1937, R-135.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS