



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-296

64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 22, 1938.

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

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

and woodworking plants and a few paper mills. With the exception of the builders of heavy-duty machinery, all factories in the section visited were reported to have recently increased operating time and payrolls, though only in one or two instances was any increase in the number of employees said to have taken place. The bankers report that there is a much better feeling in their communities, particularly on the part of the merchants who are rebuilding their inventories in certain lines. Sales representatives of manufacturers and distributors report increased buyer interest and more and larger orders.

The few bankers who had inquired into the matter gave it as the view of factory operators in their communities that orders on hand and in sight indicated a gradually increasing output for the next three to six months.

The tourist trade throughout the section is well under that of a year ago.

Loans have not increased to any extent among the banks visited and rates remain at from 5% to 6% in rural districts and from $2\frac{1}{2}\%$ to 6% in the cities. New business is mostly small personal loans and some household equipment paper. Loans to towns carry rates of from $1\frac{1}{2}\%$ to 5%. While investment lists have been strengthening recently, they showed a depreciation at most banks of from 3% to 15% with the average somewhat under 10%.

The average small bank had, roughly, a third of its funds in loans, a third in bonds and a third in cash and on balance. A number of these bankers are reconciled to the belief that their loans are not likely to increase very much at any time in the future and they are not comfortable in being forced into the investment market for earnings, an operation which some of them feel requires too much activity of trading and the placing of too much reliance upon the judgment and advice of outside agencies.

New York

Fairfield County, Connecticut

Officers of a majority of the commercial banks indicate that their security policies remain unchanged and that new investments are being limited to short term and high grade bonds. Securities owned by the commercial banks now amount to \$49,000,000 of which \$32,000,000 are United States government issues. The portfolios of eleven banks still have some appreciation and the other sixteen show a depreciation which varies from 1 to 18 per cent, six banks

reporting depreciation in excess of 5 per cent. Since the first of the year the investment accounts have decreased in the aggregate by \$3,200,000, almost half of the decline being in United States government issues.

Loans and discounts of the commercial banks now aggregate \$56,600,000, reflecting little change in the total since January 1. Nine banks have granted \$2,960,000 in Federal Housing Title II mortgage loans, 84 per cent of which has been handled by two banks. A member bank in Greenwich, which continues its relationship with an insurance company in arranging mortgage loans, reports having taken about \$500,000 of these mortgages during the first half of 1938 as compared with \$1,000,000 for the same period in 1937, the decrease being due to the curtailment in building of homes in the village of Greenwich. Thirteen banks now have \$900,000 in personal loans. In commenting upon the recent letter of Chairman Jesse H. Jones of the Reconstruction Finance Corporation with respect to more liberal granting of loans, a number of the bankers state that they are anxious to make additional loans but that there is no real demand for accommodation from applicants deserving credit although they have had an increase in inquiries from borrowers with whom they have had unfavorable experience on previous loans, some of which were severely criticized by the examiners.

Monroe County, New York (Buffalo Branch Territory)

Investment portfolios in the aggregate are 12 per cent lower than a year ago. A considerable portion of this decrease is due to the recent sale of \$7,000,000 United States government securities by one state member bank at a profit equivalent to sixteen months' earnings on this investment, the proceeds of which are held as excess cash awaiting a more propitious time for investment. Three bankers claim to have small appreciations in the security holdings of their banks, while executives of the other banks report depreciations in their lists ranging up to a high of 9 per cent.

An officer of one nonmember bank states that for the last three consecutive weeks the demand for loans from local industrial concerns for the purchase of materials has shown a marked increase. Others report a continued lack of demand from deserving customers, although a concerted effort to place good sound loans is being made. Increasing amounts of idle funds are being placed on the New York call money market.

One nonmember trust company located in Rochester withdrew its application for membership in the Federal Reserve System early this year due to the restrictions of the Clayton Act relative to interlocking directorates. One state member bank (deposits \$70,000,000)

has just entered into an agreement with a bank in Philadelphia, Pennsylvania, whereby it will receive twenty-four hour service seven days a week on the collection of checks in the eastern part of the country. The president of this bank stated that while he has always believed in the Federal Reserve System, for some years several of his directors have questioned why his bank should continue as a member, and that if the Federal Reserve bank does not adequately meet the prompter collection services rendered by the larger commercial banks, it would not be at all improbable that his bank might withdraw from the System, particularly if reserve requirements remain unreduced in times of more active business demands. Further comments along these lines were expressed by the president of another member bank (deposits \$15,700,000), who stated that if, and when, his bank becomes loaned up to capacity, and reserve requirements remain substantially greater than state requirements, he would give serious consideration to withdrawing from the System.

Rockland County, New York

The majority of bank officers report a continued light demand for credit on the part of deserving borrowers, but several banks have been able to increase their loans somewhat during the past year. Three of these have been active in their efforts to obtain personal, automobile, and Federal Housing modernization and insured mortgage loans, while other institutions located in communities where the demand for housing loans is limited have added materially to their portfolios by purchasing insured mortgages from outside sources. Three banks have not made any loans under the National Housing Act, and executive officers of these institutions attribute their failure to do so either to lack of demand or to the fact that worthy applicants have been taken care of through the banks' ordinary lending channels. Six per cent continues to be the prevailing interest rate on ordinary loans and discounts, but this is generally reduced to $5\frac{1}{2}$ or 5 per cent on well-secured loans, especially mortgages, and still lower rates are granted to municipalities.

In the three counties visited there are 49 commercial banks of which 32 issued preferred stock, capital notes, or debentures aggregating \$14,685,000 par value. Up to the present time only one institution has paid off its entire issue of \$50,000, 27 have made partial redemptions aggregating \$4,557,175 and 4 have not retired any - leaving 31 banks with a total of \$10,077,825 par value still outstanding. Included in these latter figures is one bank which has \$41,425 par value of preferred stock outstanding, redeemable at \$124,275, or at a premium of \$82,850.

Philadelphia

During July representatives of this institution visited 109 banks, mostly in the northeastern part of Pennsylvania.

In the anthracite mining sections it was learned that there had been a somewhat better activity this summer than last, although in the section around Scranton the improvement is not so noticeable and in a few instances operations were smaller than a year ago. This may be partly due to the fact that the mines in the Scranton area are said to be nearly worked out and are, as a result, more costly to operate.

Industrial activity is fair. During the past ten years many communities have seen the industries upon which they depended shrink in size or disappear altogether, either because of financial or labor trouble, or removal to other locations. While the capacity remaining is not being utilized to its full extent, most of the smaller industries are operating at a fairly satisfactory rate, the greatest inactivity being experienced at larger plants. However, one silk company with three large plants in this area has been operating steadily at capacity and it is expected that it will increase its activity here by transferring work from a plant located in another state, which work was taken away from its Pennsylvania plants a few years ago as the result of labor trouble. Two other large silk mills are working only at about one-third of capacity. A large carpet and rug mill and a steel products company, which jointly employ about 5,000 or 6,000 persons, expect to increase activity considerably within the next two or three months, and the same was said to be true of a large lace factory. The various trade organizations have endeavored to bring new industries to their respective communities with but little success to date.

Agriculture is important in much of this area and satisfactory conditions exist with regard to crop yields and quality but some misgivings are felt that low prices will prevail again this year, thus repeating the farmers' experience of last year. The low price of wheat, 60 cents a bushel, is a loss figure and is taken as an indication of low prices for other crops. This level of wheat prices is about the figure at which Government agencies will lend on this grain.

The bankers visited do not take kindly to statements by public officials that proper credit is being withheld by banks and several commented upon letters received from the R. F. C. agency asking them to participate in certain loan applications received by the agency. In many instances the applicants are not considered good risks by these bankers and they view these requests with some suspicion. One prominent banker who received such a letter stated that he was going to be very careful in answering it.

The president of one National bank referred to the statement about creating industrial banks as "ridiculous", stating that worthy businesses and individuals in his community had always been taken care of.

One non-member banker said he did not think the new method of classification is sound - that it is an "out" to save banks in distress.

The cashier of a National bank also expressed the opinion that these regulations were "a terrible mistake" stating that to his mind current valuations should always be considered, that solvency is the most important factor in banking. He said he fails to see how these regulations can aid banking.

An outstanding banker of the district, president of a National bank, criticized the revision in bank examination procedure as a deviation from sound bank management. Since the banking holiday, he said banks have followed the middle of the road - as far from the ditch as possible - but that the Board seems to want to "push them close to the ditch again".

Other bankers were more friendly to the new regulations as being an effort to help some of the banks. Of the two subjects, the new regulations and the R. F. C. letters and utterances, the latter aroused the greater comment.

Complaints are still being received about activities of Federal Savings and Loan Associations. The cashier of a member bank located in a city of 36,000 population said that it had been necessary forcibly to eject a representative of the local association, who persisted in soliciting accounts in the lobby of his bank. The representatives are said to be engaged on a commission basis which probably accounts for their over-zealousness, although the officials of this particular association have been criticized as being incompetent. One method used by the association in getting business is to offer coin banks to help people to save. These banks sell for \$2.00, \$1.00 of which is credited to the subscriber and \$1.00 is paid to the solicitor as commission. The treasurer of another member bank in the same city said that he did not consider this association competitive. In fact, he said, he favors it as it took over several mortgage loans which he no longer wished to carry in the bank.

Cleveland

The program of visits to member banks by the junior staff was discontinued at the end of June and will not be resumed until the early part of September. It is contemplated that a few calls will be made upon State nonmember banks in the interest of System membership.

Informal discussions were had with member bankers looking to the possibility of developing a market for the issuance of local securities within the confines of the Fourth Federal Reserve District. It

is a recognized fact that a substantial amount of financing of small or moderate-sized issues could be effected advantageously in the fourth district, provided certain legislative restrictions were removed or modified. The idea has been enthusiastically received in all places where it has been informally discussed.

Businesswise, there is some improvement, but sentiment appears to have outrun conclusive, tangible evidence to support it.

Richmond

Eastern Shore of Maryland

In the six northern counties mixed farming prevails, with a considerable acreage devoted to wheat, while truck farming predominates in the remaining three. Maryland will probably produce a somewhat larger wheat crop than in 1937 and it will also exceed the average for the years 1927-36. Prices to farmers were around 62 cents in the middle of July, a figure that compares unfavorably with the average of about \$1.00 a year ago. Dorchester and Kent Counties' late tomato crop is showing some damage from recent heavy rains. Worcester County has an unusually good potato crop, both white and sweet, with the former bringing from \$1.00 to \$1.25 a barrel, a price that affords the grower a small profit. The Wicomico County strawberry crop has contributed materially to farmers' incomes this year. Eastern Shore banks report a fair demand for loans, with rates running from 4 per cent to 6 per cent. Most banks are paying 2 per cent on time deposits, and service charges have become fairly general.

Northern Virginia.

Frederick, Clarke, Loudoun, Fauquier, Prince William and Fairfax Counties are in a region adjacent to Washington. Apple growing predominates in Frederick and Clarke Counties, while dairying, cattle raising, and mixed farming are more or less characteristic of the others. The apple crop for 1938 will run considerably under that for 1937 in volume, and it will also be somewhat less than the average for the years 1927-36. Prices, as of July 15th, for the State were 65 cents a bushel, but packed apples in the Winchester market are bringing from 70 cents to 90 cents in less than carload lots, and from 90 cents to \$1.10 in carload shipments. If these prices are maintained growers will be able to realize a small profit this year. Dairying in counties adjacent to Washington depends to a large extent upon the consumer demand in that city. There appears to be some danger of over-expansion of the industry. At the present time it is an important source of farm income in Loudoun, Fauquier, Prince William, and Fairfax Counties. Taking this region as a whole farmers are in a fairly good position, even though prices, except for apples, are somewhat lower than in 1937. Bank loans have held up relatively well with rates

around 6 per cent. Most banks complain of difficulty in making satisfactory earnings and are relying more upon service charges than investments for earnings. There appears to be little interest in FHA loans.

Northern West Virginia

The West Virginia hay crop for 1938 promises to be better than in 1937 and considerably better than average, the oat crop about the same as last year but not so good as average, and corn will produce a somewhat better than average crop. Production in the coal counties is still at a low level, averaging about half-time, but rentals for oil land in the oil-producing counties appear to have been fairly well maintained. Factories at Richwood (Nicholas County) have been operating nearly a full labor quota, but mill activities in other regions have suffered more acutely from the depression. The demand for loans has been rather light, with interest at 6 per cent. From 2 to $2\frac{1}{2}$ per cent is paid on time deposits, but in spite of adverse earnings conditions service charges have not been employed.

Eastern South Carolina

In Charleston County truck farming is the predominant type of agriculture, with early Irish potatoes and cabbage as leading crops. The former comes onto the market just after the Florida crop. The indicated production of early potatoes in South Carolina for 1938 is somewhat better than the ten-year average, 1927-36, but much less than the 1937 crop. On the other hand, the sweet potato crop will run much ahead of 1937 and the ten-year average. The average price for Irish potatoes was, on July 15, 1938, about 80 cents a bushel, and for sweet potatoes about 85 cents. Jobbing and manufacturing activities in Charleston clearly reflect the effects of the depression, but conditions have been made somewhat better by increased activity at the Charleston Navy Yard. In addition, residential construction has been rather dormant and there appears to be little interest in FHA loans. Conditions upstate appear to be rather favorable. The tobacco crop in Williamsburg and Sumter Counties will probably produce better than an average yield (1927-36 average), though somewhat less than in 1937. Sumter County manufacturing industries - furniture, hosiery, veneer, Venetian blinds, flour, and fertilizer - have been able to employ approximately three-fourths the normal amount of labor, and home building continues fairly active. The demand for bank loans has been fair, with rates varying from 6 per cent to 7 per cent.

Atlanta

Northeast Florida

Visits were paid during the month to the three member banks in

Jacksonville, Florida. It was stated that the Jacksonville section and the State of Florida generally have not been nearly so much affected by recent adverse conditions as appears to have been true in other parts of the country. The tourist trade during the season was fair and, while the citrus crop will not be as large as the crop last year, better prices are anticipated.

The bankers seem to feel that recent general criticism of the lending policies of commercial banks was not justified. It was felt that the demand for all legitimate loans had been met, and the bankers were extremely anxious to increase their volume of loans. The statement was made that, in so far as the Jacksonville banks were concerned, a liberalization of lending policies would simply mean unsound banking, and that there had been and was no disposition to reject a loan merely because its liquidation might not be accomplished within a relatively short period.

Northwest Georgia

This territory is primarily agricultural, with cotton the principal money crop. In several of the towns, however, there are located textile mills, stove foundries, etc. Handmade bed spreads are shipped from the vicinity of Dalton, Georgia, in large volume, the total dollar value being approximately \$5,000,000 a year. The stove foundries are operating on a much reduced schedule, due to the fact that heavy inventories were accumulated during the early part of last year.

The acreage planted to cotton is approximately 25 per cent less than that of last year, and yields are expected to be from 25 per cent to 33-1/3 per cent lower. The condition of the cotton crop is reported "fair" to "good". There is some infestation of boll weevil, and recent rains have increased the likelihood of damage from this source. Corn and other feed crops are reported good.

The banks report little change in deposits and loans, as compared to a year ago. With one or two exceptions, the bankers interviewed offered no criticism of the activities of Governmental loan agencies. A number of the banks are making F.H.A. Title II loans for resale.

The nonmember bankers, with a single exception, stated that the importance of exchange on cash letters as an item of income prevented their giving serious consideration to becoming members of the System. One par remitting nonmember bank objected to the reports which would be required in the event the bank should join the System.

No criticisms or suggestions were made concerning the services rendered by the Federal Reserve Bank, except that one banker thinks there is too much "red tape" connected with borrowing from the Reserve Bank. The officers of one member bank stated, in confidence,

that in their opinion the revised examination procedure would have little effect on the loan and investment policies of well managed banks. An officer of another member bank expressed dissatisfaction with the current reserve requirements.

Southern Louisiana

Visits were made to a group of banks located in an exceptionally fine agricultural section, commonly referred to as the "Evangeline Country". The principal crops are sugar cane, rice, cotton, and corn. The crops now under cultivation are reported to be better than for a number of years, having had an unusually good growing season.

The farmers of this section are beginning to take more interest in raising cattle and the improvement of the herds.

All of the bankers except one stated that the Governmental lending agencies are beneficial to their respective communities and as a general rule make loans that they would not care to handle.

Southern Mississippi

Bankers stated that business is rather quiet, which is to be expected at this season, but that with the present prospects for an excellent harvest they are looking forward to a good fall season and better earnings during the latter half of this year than in the same period of 1937.

Without exception the bankers interviewed were not critical of Governmental lending agencies. The general opinion seems to be that these agencies make a few loans that the banks would like to have, but that most of the loans are made to individuals who are not considered good risks for banks. It is believed that the funds loaned by these agencies help the banks indirectly.

Chicago

During the month of July, 1933 calls were made on member and nonmember banks, the majority being located in the northern part of Iowa with a few in Illinois, Indiana, and southern Michigan.

There are some indications of a slightly increased demand for loans in agricultural sections. The amount of live stock loans will depend to some extent upon the price at which feeders may be purchased. The abundant forage crops will have a tendency to hold these prices up.

Crop prospects continue good, although in the southern part of Iowa rain is needed; in the northwestern part of the State it is

believed there is already sufficient moisture to insure the corn crop.

There have been few sales of farm lands and noticeably little recovery in land values, the top prices in Iowa and Indiana being given as ranging from \$100 to \$125 per acre, while in Illinois the prices are quoted as slightly higher. In three counties visited in southern Michigan, the average given was \$50 to \$60 an acre.

Retail trade has been only fair and sales show a reduction of from 10 to 33-1/3 per cent, depending on the locality. In East Chicago, Indiana, payrolls of the principal industries have decreased from \$2,500,000 in January to \$2,100,000 in July. Very little building is reported with the exception of some residential construction in a number of the smaller towns.

There are 110 non-par banks in the State of Iowa, a number of which were called upon. While most of these were cordial enough in their attitude toward our representatives, they frankly stated that they do not feel they can afford to give up the revenue from their exchange charges. There is apparently a growing sentiment on the part of parring banks against those banks which do not remit at par, and the feeling was expressed that in all probability some legislation will be enacted with a view to correcting this situation.

In Iowa, 141 branches are operated by 109 banks. Calls were made on a number of these, and while in some instances the banks state that the branches are not profitable, they feel that the localities served by the branches need some banking facilities and for this reason they are not willing to dispose of them. In one case it was pointed out that the branch was located in a heavy cattle feeding district and many of the feeders have loans as high as \$20,000. These could not be taken care of by the establishment of a unit bank at that point, as a bank of \$25,000 to \$50,000 of capital would not have sufficient loaning power to accommodate borrowers of this type. Most of these banks think that the law should be amended to permit a bank with ample capital to operate branches and at the same time be a member of the Federal Reserve System.

Banks visited expressed themselves as being satisfied with the services rendered by the Federal Reserve bank. However, one State member bank said that it is giving consideration to withdrawing from the Federal Deposit Insurance Corporation, as it feels that the value of membership in that corporation is not worth what it costs. This action would, of course, make it necessary for the bank to give up its Federal Reserve membership.

St. Louis

During the month our officers and field representatives visited

197 banks of which 113 were in Illinois, 36 in Missouri, 31 in Indiana, 13 in Kentucky, and 4 in Tennessee.

Business, Trade and Industry

The decline in mercantile business that has been in evidence in the more important industrial centers has now reached the agricultural communities. This can be attributed chiefly to the decrease in cash income of those engaged in farm work on account of lower prices now current for practically all grain crops.

Wheat harvest in the Eighth District was considerably smaller than last season. The price now offered is about 60 cents per bushel as compared with \$1.10 to \$1.15 last summer at the close of threshing. A plentiful supply of corn (which also brings a low price) has enabled farmers to increase their feeding of hogs for market although the scarcity of feeder stock has placed a decided limitation upon such activities.

Industrial conditions remain unchanged with no present indication that any worthwhile expansion is contemplated, except in scattered communities in Southern Illinois where oil has been discovered within the past year. Even in some of these localities the "boom" is now subsiding because no additional producing wells have been brought in.

Commercial Banking

With an ever increasing volume of idle funds due to lack of a normal demand for loans, country banks are seeking methods of increasing their earnings and a good many of them are acquiring F.H.A. and Federal Farm Mortgage paper. A surprisingly large number of the rural banks are subscribing for the recent offering placed on the market by the R. F. C., which is an indication of the present trend of thought as to what constitutes desirable securities. Comparatively few bankers who have been interviewed are giving any consideration whatever to securities that have the slightest speculative tinge. Almost all the banks visited show less funds involved in outstanding loans than at this period in 1937.

Officers of a State member complained of the number of nonpar points in their territory and intimated that we ought to do something about it. When asked for suggestions, they suggested that we strong-arm them.

Officers of a small nonmember, located in the vicinity of St. Louis, inquired about what steps should be taken to get off the par list. Conversation developed that they had discussed the matter of making their checks immediately available with officers of a St.

Louis member bank and were advised that they would be subject to a charge when depositing in clearing house banks. Our officers outlined how their checks could be made immediately available by clearing through our bank and forms in this connection will be forwarded. The same subject was discussed at some length with officers of another nonmember, one of whom made the statement that the number of banks off the par list was resulting in less use of checks and greater use of currency, as salesmen are requesting currency in settlement of accounts to avoid cost of collecting checks.

The cashier of an Indiana nonmember, located in a city of 6,000 inhabitants, has been alert to all lending opportunities and has taken loans of all types, particularly those with amortization provisions. He has thus aroused the skepticism of some of the examiners but stated that actual liquidation has convinced the supervising authorities that the loans are sound. About three years ago he made some bus loans, representing purchases of buses by various school districts. Vigorous objection was made at the time by some of the examiners but the loans have since been paid. His bank's earnings are especially good, having earned \$31.00 per share net in 1937. He stated that earnings for the first half of 1938 were extremely good. Membership as a State bank was discussed at some length, but he stated that he is not ready for it at this time.

Minneapolis

Northern Michigan and Wisconsin

In the copper mining country conditions were not very bright, due to the fact that the mines are only operating on a part time basis. It is believed that the copper veins are diminishing and that in a short time the mines will be closed entirely. However, the Calumet and Hecla Mining Company is testing locations where there are copper mining possibilities, which provide a brighter outlook. Because of the prevailing low price on copper, it is difficult for the mining company to make any profit. This situation is viewed with discouragement by the citizens of the mining community as their livelihood is almost entirely dependent on this industry. The same condition prevails in the iron mining territory and the outlook apparently is no brighter.

The lumbering business also is suffering. In fact, one hardwood lumber mill, which has been running at full capacity, has now shut down entirely on account of labor conditions with no immediate prospects of reopening; others have closed down or are merely operating on a three day a week basis.

Potato crops seem to constitute the major agricultural industry, and there is promise of a reasonable yield of hay. The dairying business contributes to the farming activity in a small degree.

Minnesota Valley Clearing House Association Meeting

The bankers expressed strong disapproval of the Government's order for restriction in the 1939 acreage of spring wheat. In this they seemed to reflect the attitude of their farmer customers, but they appeared to have no basis of facts as to carry-over and possible sale outlets for the wheat crop. Their attitude was merely that hard spring wheat is a splendid crop and the spring wheat farmers should be allowed to grow as much of it as they cared to plant.

Northeastern Minnesota and northwestern Wisconsin

In these sections of Minnesota and Wisconsin (excluding Duluth and Superior) loans are made principally to dairymen, with chattel mortgages on their cows and sires, and to berry and fruitgrowers, and small timber growers. Loans are generally small. Real estate loans on rural property are small due to the fact that in this forested territory farmers are putting only small parcels of land under the plow. Loans on urban dwellings are almost exclusively on an amortized basis and this type of loan constitutes the great bulk of real estate paper held by the banks. Loans in Duluth and Superior are generally of the kind made by large city banks. Chattel mortgages in all of the banks carry a rate of seven to eight percent. The smaller institutions as well as the larger are rapidly acquiring automobile and appliance contracts. Their experience with installment financing has been excellent and interest rates are high. Few, if any, banks handle this paper exclusively on a recourse or nonrecourse basis; some of both kinds are handled by nearly all of the banks. Very few of the banks are yet interested in wholesaling or floor-plan loans. Most of them handle used car contracts to a limited extent and only where the owner has a large equity. The bankers said in substance, "We have been asleep for all these years and the scarcity of other loans has opened our eyes to a type of paper that is profitable and safe if closely watched."

Where bankers were willing to commit themselves on the condition of their bond portfolios, about one-half reported some depreciation and the other half an appreciation. Most of the depreciation appears to be in rails and utilities. Two of the better managed banks sold almost all of their governments this spring and do not intend to get into the market again until fall.

Kansas City

The movement of wheat is influencing bank deposits and bank loans much less than last year. The crop a year ago was generally of better quality and almost equal in amount to the present one, and prices were much higher. The result is the present crop is coming to market much slower and the greatly lower prices are affecting bank deposits. It

appears that Government wheat loans will, for the time being, tend to keep wheat off the market. But these loans are slow in getting under way and whether the bulk of the wheat will be stored on the farm or elsewhere and just how the "wheat money" resulting from these loans will affect local business is not yet clear.

Bankers report that many farmers bought too much machinery early in the season when it appeared that there would be an unusually large wheat crop. The crop has turned out to be much poorer than anticipated and the quality of much of it is such that the price is disastrous. It is reported that these conditions have created a serious situation in financing this over-purchase of machinery.

City banks report there are a goodly number of country banks that are about to the place where they must borrow. It is said that to a greater degree than usual these country banks want to negotiate paper to their correspondents without recourse in order not to show borrowing.

During July numerous visits were made to banks in Colorado. A good many eligible state banks showed interest in membership. Almost universally banks complained of the difficulty of securing satisfactory employment of funds and in nearly all cases outspoken criticism was heard of the competition of the Production Credit Corporation. There appears to be difficulty in securing cooperation in maintaining satisfactory service charges. A good many banks are paying $2\frac{1}{2}$ percent for time money.

Bankers are emphatic in their statement that recent action in the direction of credit liberalization will have little effect. It is their belief that worthy borrowers are now being taken care of. It is said that every installment of publicity for loosening credit that appears in the newspapers brings a new crop of impossible requests for loans. One banker cited the example of a tenant farmer who has been on relief and now has a Government loan of \$1,800 on property worth \$400 or \$500. This man recently called at his bank and asked for a loan.

Loans of reserve city banks are appreciably lower than in March and much below a year ago. These banks have also reduced rather sharply their holdings of Government securities, the greatest reductions having taken place in Treasury notes. Quite a different situation is found in the case of country banks in this District. These banks have increased their loans appreciably--especially their real estate loans. The country banks have also reduced their holdings of Government securities, but to a much less extent than in the case of reserve city banks.

Dallas

Owing to the interruptions incident to the vacation season, our officers visited only sixteen banks during the month. These visits were of a routine nature and developed no information of general interest to the System.

San Francisco

Northern Utah

General business conditions in the area visited, while less satisfactory than they were one year ago, due to lower prices prevailing for agricultural crops in general, show some recent improvement due to strengthening in prices. Metal mining shows prospects for some renewed activity, one important producer reopening operations on August 1st.

Some stimulation is felt because of prospective development of irrigation project involving large cash expenditures. Agricultural production outlook continues favorable with maximum yields quite generally expected.

Washington, Bremerton District

On account of the fact that considerable governmental work has been in progress at the Navy Yard for some time, conditions in Bremerton and the surrounding country are very satisfactory. A new logging development has occurred in the vicinity of Poulsbo, which has contributed additional funds to that community on account of a new payroll.

Seattle Valley

The valley immediately south of Seattle is largely agricultural and dairying. The growing of peas in the valley has replaced lettuce growing to a great extent and has resulted in the development of additional industries for the freezing of fresh fruits and vegetables. Agricultural conditions appear to be satisfactory and new herds of dairy cattle have been introduced.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKSJULY, 1938

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	46	9	55	None	--	None	--
New York	62	40	102	None	--	1	40
Philadelphia	81	28	109	None	--	None	--
Cleveland	None	None	--	5	549	None	--
Richmond	48	23	71	3	500	1	150
Atlanta	30	15	45	None	--	None	--
Chicago	87	106	193	None	--	None	--
St. Louis	80	117	197	4	540	None	--
Minneapolis	54	50	104	3	912	2	102
Kansas City	26	16	42	1	75	None	--
Dallas	10	6	16	None	--	None	--
San Francisco	18	9	27	5	1,259	None	--

-17-