



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 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 August in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

L. P. Bethea,  
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

September 17, 1938.

To: The Board 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 August 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.

Several of the Reserve banks mention again the comment which bankers make upon the Reconstruction Finance Corporation's recent suggestion that lending policy be made more liberal. The reports reflect considerable resentment at the suggestion. Bankers also complain that loans which they have already made and which they feel are sound are subject to unreasonable criticism by examiners.

There is frequent mention of the slack demand for loans and the difficulty of determining upon a proper investment policy. The question of membership seems to have received more attention recently than heretofore and a number of nonmember banks appear to be giving more thought to the choice that will have to be made by them in 1942 of becoming members of the Federal Reserve System or discontinuing their deposit insurance.

The reports indicate considerable disappointment in agricultural regions over low prices, as in the case of wheat, or reduced yields, as in the case of cotton, especially in view of the optimistic expectations of last spring. In general, however, they appear to reflect a real improvement over conditions a year ago, taking the country as a whole.

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

### Boston

Forty member banks and branches and nine nonmember banks, all located in Maine, were visited during August.

In those communities where the textile, shoe and paper industries are represented by one or more mills, employment, payrolls and general retail trade were reported to have shown improvement within the past sixty days. In those communities catering largely to the summer vacationist, the season business was estimated to be running between sixty and seventy percent of last year's volume. In Aroostook County, where the growing of potatoes is the principal industry, there had been a slight cut in acreage (169,009 to 164,000) and a production of 47,560,000 bushels was estimated. No advances over last

year's prices were looked for and in some quarters the view was expressed that the average price over the marketing season might fall somewhat below that obtained for the 1937 crop. Weather conditions over a part of the growing season increased the cost of cultivation somewhat and the growers in some sections have borrowed more to make their crops than was the case last year.

The banks visited were loaned up to from thirty to fifty percent of their available funds, including purchased paper, and the total loans of individual banks showed little or no increase over the totals of a year ago. The complaint that good loans were in insufficient volume was heard at a number of banks. Bond portfolios at most of the banks showed some appreciation. Lending rates in the rural districts are from 5% to 6% and from 2½% to 6% in the cities. Loans to towns carry rates of from 2% to 5%.

No complaints were directed against the Federal Reserve System or this bank. A few bankers complained of conflicting rulings of various governmental agencies, and of the burden placed upon them by the requirements for numerous reports to these agencies. Expressions of doubt as to the advisability of banks liberalizing their lending policies as urged in letters from the Reconstruction Finance Corporation were heard frequently. One or two bankers inquired as to the possibility of the so-called "Patman Bill" being enacted into law in its present form, and also inquiry was made at several banks as to the possibility of the Federal Reserve Banks discontinuing certain of their free services to member banks.

### New York

#### Bronx, Kings, Queens, and Richmond Counties, New York

Bankers for the most part report a light demand for credit, some commenting that no more than 10 to 20 percent of their total loans represents strictly business accommodation. Commercial banks generally in the metropolitan area have made few direct mortgage loans insured under Title II of the National Housing Act. Many of the banks have installed personal loan departments and report satisfactory experience in this comparatively new field. One bank located in the thickly populated section of Flatbush, Brooklyn, is now making a drive for loans secured up to 90 percent of the cash surrender value of life insurance, and expects by mid-September to have on its books at least \$100,000 of this class of business. Rates charged will vary according to the amount of the loan - 5 percent on loans up to \$500, 4½ percent on loans from \$500 to \$5,000, and 4 percent or even less on amounts in excess of \$5,000. Officers interviewed at a large bank in Brooklyn say there has been quite a shrinkage in demand for credit, mentioning that the large nationally known finance companies have been reducing their lines within the last few months, which accounts for a substantial reduction in the loan portfolio now as compared with last October.

The savings banks in the four counties were also visited. Most of these institutions now charge 5½ percent on old mortgages, and 5 percent or even

lower rates in cases where regular amortization payments are being made and the principal amount of the mortgage is not too high. Although, under the State moratorium law, no pressure can be brought to bear against mortgagors to make amortization payments if taxes and interest are up to date, several bankers say that they have interviewed many of the mortgagors explaining to them that their mortgages are past due and are being carried along as open obligations but that if they will agree to make stipulated payments on the principal an extension of maturity will be given, usually for a period of twenty years, and in this way these particular mortgages are taken out of the moratorium class. Practically all banks charge a rate of 5 percent on the new mortgages granted in recent years but require regular stipulated payments on principal, which payments, together with the interest, are usually made either on a monthly or quarterly basis.

#### Greene, Orange, and Ulster Counties, New York

Demand for accommodation generally continues light and loan and discount totals of \$26,232,000 are only slightly higher than they were approximately a year ago. Quite a number of bank officers introduced the subject of the recent letter written by Chairman Jesse Jones of the R. F. C. urging banks to be more liberal in their lending policy, but all of these maintained that they are only too anxious to increase loan lists and are refusing no application which presents a reasonable prospect of repayment. Opinion, however, seems to be uniformly opposed to the idea of taking undue risks with depositors' money even though a few borrowers might be benefited thereby.

Reports received upon business conditions were, as a rule, not very favorable. Muck land farmers in Orange County have so far had a very disastrous year due to the heavy rains and high water during July, causing damage which it is thought will result in a loss of 50 to 60 percent of their crops. Fruit growers in the Hudson River Valley have so far had little to compensate them for the poor season of 1937. Some of the early fruits and berries were also hurt by wet weather, and the prices received have been considered generally unsatisfactory. It is hoped, however, that apples will bring a better price this fall in view of the shorter crop throughout the country as a whole. Industrial establishments in this territory are for the most part small, and little or no improvement in activity has been shown during recent months, working forces and hours of employment generally being considerably less than a year ago. Summer vacation trade in the Catskill Mountain area has been substantially less than last season, the reasons advanced for this being the rainy weather and poor business conditions in the garment and needlework trades whose employees usually patronize the boarding-houses and small hotels located here.

#### Hudson County, New Jersey

The North Bergen Trust Company whose deposit insurance status was terminated by the Federal Deposit Insurance Corporation effective May 1, 1937, has continued to operate without insurance of any of the funds which have been deposited subsequent to that date.

One banker remarked that a number of institutions are abandoning many properties located in the poorer sections of Jersey City and allowing the city to acquire them through nonpayment of taxes. Officers of savings banks indicated strong opposition to making any mortgage loans on properties in Jersey City or elsewhere in Hudson County and stated that new mortgages granted have been mostly on properties located in Essex, Union, and Bergen counties.

In the fourteen counties visited there are 227 incorporated commercial banks of which 141 issued preferred stock, capital notes or debentures aggregating \$45,903,894 par value. Up to the present time only 20 institutions have paid off their entire issues amounting to \$2,395,000, 82 have made partial redemptions aggregating \$8,319,974 and 39 have not retired any - leaving 121 banks with a total of \$35,188,920 par value still outstanding.

### Philadelphia

During August representatives of this bank made 126 regular visits, 119 of which were to institutions located in the east central part of that portion of Pennsylvania assigned to the Third District and seven to banks located in southern New Jersey, along the Atlantic seaboard. In addition, 14 special visits were made regarding currency services.

In all but a few communities conditions in the areas covered by this report are worse than those which existed a year ago. In several of the industrial towns business receded to a very low level but is increasing. The iron and steel industry appears to have suffered most as the only plants of this kind operating with any degree of regularity and with sufficient business to keep them busy for several months are those engaged in the manufacture of products for the Russian Government. Textile plants in several towns are working steadily and operating extra shifts, while in other towns they have been closed or are on greatly reduced schedules.

The anthracite industry experienced poor business last winter on account of mild weather, and is being hampered in several sections at present because of strikes. Production at the mines is expected to be increased shortly, but many companies have large quantities of coal already above the ground on sidings ready for immediate delivery. Upon the insistence of the unions, the collieries of the large companies are operated on an equalization plan designed to benefit the majority. This places the companies at a distinct disadvantage, as the production of coal at some collieries is more costly than at others. In an effort to regain lost markets, coal companies are advertising the use of stokers. The bootlegging of coal is greater in these, the southern anthracite fields, than anywhere else in the coal regions.

Conditions in the agricultural sections were promising earlier this year, as good crops were in the offing. However, the heavy rains during July affected the quality of the wheat which had been cut and not threshed, and caused the late potato crop to become blighted. Other crops harvested were

good and the corn crop is expected to be the best in a long time. Fruit appears to be abundant.

Much of the wheat which ordinarily would have been sold will now be fed to cattle. In the final analysis, farmers figure that more profit can be obtained in this manner than by selling wheat at 45 to 60 cents a bushel. Potato growers will sustain losses on the late crop because of the blight. Some growers are dumping these potatoes on the markets at any price they will bring, which is having a depressing effect on the price of good potatoes grown elsewhere.

Dairying and cattle feeding continue to be successful farm activities. Milk prices are considered fair and small profits were realized last spring from the sale of beef cattle fattened during the winter.

Comments are still being heard regarding recent utterances of the Honorable Jesse Jones, Chairman of the R. F. C., most of which are to the effect that his criticisms were unjust.

An executive whose bank was requested to participate in an advance being considered by the R. F. C. said that his bank agreed to assist only because the management did not wish to have it said that their institution was not aiding industry. This executive remarked that the present administration's attitude toward banks which, it is claimed, are restricting credit, had much to do with the approval of the participation and that it is cited in the minutes of his bank that the participation was approved only because the Federal Government advocates liberal lending policies. If the loan is eventually placed on the books, chargeoffs on account of it will begin immediately, as the officers and directors question whether it will ever be repaid. Because of this the amount advanced is being treated more or less as a gift, it being the hope that some new employment may be created.

Several bankers criticized the office of the Comptroller of the Currency for requesting better loan liquidation in lines which the officers and directors consider good and contend that, should these lines be repaid, the funds could not be re-invested to the same advantage.

#### Cleveland

Bank visitation work has been limited almost entirely to calls upon banks presumed to be eligible for membership in the Federal Reserve System, and having deposits in excess of one million dollars. This is part of a fairly well-defined program looking to interesting such banks in membership, which contemplates that every bank in this classification within the district will be visited by members of the bank examination staff, or by officers, as the developments seem to warrant.

In conversation with active officers of the institutions visited, while the attitude in practically every instance was apparently distinctly friendly, there was in the majority of cases a decided lack of interest evidenced in the

Reserve System membership at the present time. The view frequently was expressed that correspondent banks could do and were doing substantially everything for a nonmember that a Reserve bank could do for a member bank; that under present conditions the Federal Reserve System has nothing to sell, and that, therefore, they could see no substantial reason for considering membership at this time.

In a number of instances membership under present conditions would be impossible because of inadequacy of capital - in some cases because the capital structure is below the statutory minimum, and in others because of potential impairment of capital by reason of depreciation in loan or investment accounts. In other instances membership cannot be considered at this time because of insufficient capital based upon the fact that branches are operated in other cities.

In recent years Ohio banking laws have been amended to conform closely to national banking laws, and in scattered instances conversion from State to National banks and automatic membership in the System has been discussed. There is also evidenced a desire to escape dual examination; that is, by both State and F. D. I. C. authorities.

Other objections voiced were based upon antagonisms due to various misconceptions of the reserve banking system, sometimes dating back to the period immediately preceding and immediately following the banking holiday.

Although high pressure tactics have not been employed, the effort to date has netted one application for membership, and six or eight prospects which are considered "live".

#### Richmond

##### North Central North Carolina

Most banks show a slight decline in deposits as compared with June, 1937, while in most instances loans and discounts are higher and investments somewhat lower. The rate on loans varies from 3% to 6%, with a tendency to adhere to a 6% rate, and the present demand is somewhat stronger than during the past several months. With few exceptions, banks are paying  $2\frac{1}{2}\%$  on savings deposits, and member banks are reluctant to impose a full schedule of service charges when such charges are not made by competing non-par banks. The general opinion among bankers with respect to Production Credit Corporation loans is not unfavorable. In some instances the latter have been the means of assisting farmers to become bankable customers. Such loans are considered mostly of a non-bankable character. Practically all bankers maintain their willingness to expand credit wherever it can safely be done. According to present indications most banks in this region will be able to realize satisfactory earnings.

##### Southwestern North Carolina

In this region live stock and dairying predominate. Although most farms

devote a small acreage to fruit and vegetables, burley tobacco is the leading cash crop. Estimates indicate production about 13% below the average for 1932-36. About 15,000 head of beef cattle are sold yearly, mostly to finishing markets, and prices will range from 6 cents to 8 cents. The apple crop is comparatively inferior and marketing facilities are inadequate. Prices have ranged from 30 cents to 75 cents per bushel. Grain crops are consumed almost wholly on the farms.

It is probable that tourist traffic provides more money income than all the crops combined, and it will probably increase as the Great Smoky Mountain Parkway is developed. Building construction, with the exception of public structures, has been comparatively inactive. A new cigarette paper factory under construction at Brevard (Transylvania County), involving an outlay of about five million dollars, will probably encourage farmers to produce flax. The rayon plant at Inka (Buncombe County) and the paper factory at Canton (Buncombe County) have resumed full operations.

Bank deposits have remained fairly stable throughout the depression, with interest at  $2\frac{1}{2}\%$  on savings. Loans have shown a recent tendency to expand, with rates from 5% to 6%. Investments are confined for the most part to municipal, State, and Federal issues. There appears to be no well-defined policy with respect to service charges, partly because exchange charges are relied upon by non-par banks, and little interest in FHA loans.

#### Southeastern South Carolina

Bank deposits are in general lower than a year ago, with a tendency for loans and investments to maintain their position or to increase somewhat. Rates on time deposits are 2% on the first \$1,000 and 1% on the balance. Interest rates on loans vary from 3% to 7%, with 6% on the bulk. Some competition from Production Credit Associations is reported but appears not to be resented, since their loans are mostly nonbankable. Investments consist almost exclusively of municipal, State, and Federal issues. A few banks are taking FHA Title II loans. With loans diminished by the decline in business and relatively unfavorable farm crops and prices, banks in this region are likely to experience only fair profits from operations in 1938.

#### Atlanta

#### Mobile, Alabama

The level of business activity in Mobile has been well sustained during the current year. Local industries are operating on schedules which compare favorably with those in effect in other cities of comparable size. The only disturbing feature at this time is the weevil infestation in cotton in the Mobile trade area. An officer of one of the Mobile banks who had recently made a trip through south Alabama was of the opinion that the weevil had damaged the crop in approximately one-third of the acreage estimated on July 8. Crops other than cotton are good and it is believed that retail trade will be



active this fall, provided satisfactory prices for crops are obtained.

With non-recurring bond profits excluded, earnings of the Mobile banks in the current year to date are better than in the corresponding period of 1937. The volume of loans and deposits compares favorably with that of last year. An officer of one of the Mobile banks stated that there were in sight new loans aggregating about \$1,300,000 which would be made within the next 30 days.

### South Georgia

Our representative visited 17 banks located in south Georgia in a territory in which cotton, corn, peanuts, and tobacco are the principal crops. It is estimated that the cotton crop will be smaller than last year by from thirty to forty percent on account of reduced acreage allotments and boll weevil damage. It was feared that excessive rain fall would damage the peanut crop considerably.

The tobacco markets were open during the period covered by these visits and it was reported that the crop was of good quality and that the growers were receiving satisfactory prices. Considerable dissatisfaction with acreage and poundage allotments on the part of the growers was reported. However, in spite of this dissatisfaction reports indicated that the section as a whole would realize from the tobacco crop as much as was received last year, i.e., approximately \$20,000,000, if not more.

Our representative reported that, in several of the towns visited, increasing interest was being shown in the raising of live stock, particularly hogs. The location of a packing plant in Albany, which provides a year-round market for cattle and hogs, has encouraged the development of the live stock industry.

No complaints or criticisms regarding the Federal Reserve System or the activities of Governmental loan agencies were encountered, except that some resentment was shown at the statement of an official of the R. F. C. to the effect that banks were not meeting satisfactorily the requirements of borrowers in their communities. Some of the smaller banks visited reported the demand for loans as satisfactory. Banks in the larger centers expressed disappointment in their current earnings.

### Lower Mississippi Delta

Visits were made to 4 member banks and 1 nonmember bank located in the lower Mississippi delta. This territory is very largely devoted to the growing of cotton and corn. Corn prospects were reported to be better than for several years past. Weevil infestation is a cause of concern to the cotton planters and frequent rains have increased the possibility of damage from this source. The acreage allotment of the large scale cotton planters of this area was substantially reduced this year, and unless satisfactory prices prevail this fall it is believed that the planters will not look with favor upon entering into acreage allotment agreements next year.

Zone meeting

The Federal Reserve Bank was represented at a meeting of members of the Georgia Bankers Association, Zone M, held on August 10. The principal topics under discussion at this meeting were service and exchange charges.

Several of the larger nonmember banks represented at the meeting were concerned over the possibility of their being forced into membership in the Federal Reserve System in 1942, and the suggestion was made that committees be appointed to begin a campaign for the repeal of the law which at present requires certain nonmember banks to become members of the System.

Chicago

In August 171 calls were made on member and nonmember banks, the majority being in the northern part of Iowa and southern Michigan with a few in Illinois and Wisconsin.

Those interviewed generally were optimistic as to the outlook for future business. Small grain crops have been good with the exception of oats, which in some localities have been of an inferior quality and light in weight. Barring an early frost, the prospect for the corn crop is excellent. In southern Michigan as the result of a freeze late in May it is estimated that the peach crop will be 60 to 70 percent of normal, apples 60 percent, and the grape crop almost a total failure. The celery crop is the largest in history. In one town it was stated that the U. S. Surplus Commodity Corporation had contracted for twelve carloads of celery in order to take care of the surplus and to stimulate prices. The celery will be given to those on relief.

Very little change was reported in the employment situation. A number of small factories are running full time, but the majority of the reports indicate operations of from 33-1/3 to 75 percent of normal.

There has been no substantial change in the aggregate of loans. However, several of the smaller nonmember banks located in live stock feeding sections have increased their loans materially and are being forced to borrow from their correspondents. Automobile loans have been reduced appreciably since January 1. There has been a tendency on the part of large institutions with large cash reserves and good earning power to make so-called "intermediate loans" having maturities from 18 months to three years. These loans range in amounts from \$100,000 to \$3,000,000. Banks seem to be displaying more interest in F.H.A. mortgage loans. In some instances the demand for these exceeds the supply. In addition to making such loans, some of the banks are buying them from other banks or from qualified mortgage companies.

The policy to be pursued in their investment program continues to be a question of importance with the banks. Representatives of two large institutions state that their boards are giving consideration to the following propositions:

Continue in the general bond market, which would necessitate the employment of high-priced investment counsel.

Confine their investments to U. S. Government obligations and short term high-grade municipals.

Purchase investment services, such as Moodys or Standard Statistics, and have periodic checks of their bonds by Chicago correspondents.

Many of the banks appear to be in favor of confining their activities for the next six months solely to U. S. Governments.

Comment indicates approval of the agreement entered into by the Board of Governors, Comptroller of the Currency, and the Federal Deposit Insurance Corporation - especially is this true in regard to the classification of loans and the prohibition against using bond profits for any purpose other than to cover losses until such time as adequate reserves have been established.

Vigorous criticism of the Federal Savings and Loan Associations continues to be expressed by the banks: also criticism regarding currency exchanges. We have reported possible violations of the provisions of Section 21 of the Banking Act of 1933 on the part of various currency exchanges operating throughout the State of Illinois.

We called upon 75 nonmember banks. Of these, 18 are operating branches. A number of the others, however, are good prospects for membership. One bank ineligible for membership because of its branch agreed to have its name added to the par list. Three State banks were admitted to membership during the month.

#### St. Louis

Mercantile business in sections of the States visited has been affected by unemployment in the industrial centers and curtailed income from sale of various farm commodities raised this year. However, there has been some disposition on the part of retailers to replenish depleted inventories, and there is a noticeable improvement in sentiment.

Keen disappointment resulted from disposal of the 1938 wheat crop, as prices were about one-half those which prevailed for the 1937 harvest, total yield being approximately the same. In the event present forecasts are borne out, the price of corn will inevitably decline, as indications point to a yield in excess of last season.

Only a comparatively small percentage of the banks visited recently report any considerable increase in demand for local loans. The exceptions were in those localities where livestock feeding for market has necessitated the financing of purchases of feeder stock to replace both cattle and hogs that have been finished for market or where farmers have surpluses of feed which they wish to dispose of by feeding stock in order that storage room

for the new corn may be available when needed. Because of the low price received for wheat, the efforts of some banks to effect liquidation of old loans have not been as successful as last year.

Interest rates on time deposits are being quite generally lowered throughout Illinois and Missouri and it is now the exception to find any bank paying in excess of 2% on time money. Many institutions now allow only 1% on such deposits. An increasing number pay no interest whatever, this course having been found advisable because of the lack of earnings from loans and lessened yield from high grade investment securities.

The banks are keenly anxious to place their idle funds profitably, advances in many instances being made to customers at lower rates of interest, rather than suffer the loss of this business to the larger centers.

Officers of several member banks, visited since the receipt of our circular of August 19, 1938, regarding additional safekeeping facilities, spoke very highly of the additional service and of the advantages which will accrue to their banks.

Illinois banks under State supervision are keenly interested in the fate of the constitutional amendment abolishing double liability to bank stockholders, which is to be voted on this fall. Officers of a number of nonmembers have stated that should the amendment fail to pass, thus making membership as State banks unattractive, their banks will nationalize.

### Minneapolis

#### Northwestern Minnesota

None of the mines on the Vermilion, Mesabi or Cayuna iron ranges were producing ore in important volumes, but, nevertheless, mining company pay-rolls were playing an important part in the economy of most of the towns on the ranges.

While agriculture is only of minor economic importance in this section of the state, the agricultural population of these counties is steadily increasing. The territory north of the iron range appears to be particularly well adapted to the production of leguminous seed crops (especially alsike clover and alfalfa). Certified seed potatoes are another specialized crop.

#### West central Minnesota

The people in a good deal of this territory are German Catholics and good farmers. Business in the counties visited is largely dairying and dairy products. Apart from some rye and barley, the grain raised is practically all used for feeding of dairy animals and hogs. Crops of this season are not as good as one year ago, although there are sections where the quality is exceptionally good and the quantity is large. Oats and wheat

show considerable fluctuation in fields only a few miles apart, and this is also true of corn. The oats threshed range from 15 to 65 bushels per acre; wheat 12 to 25 bushels. Corn has not yet matured, but the recent heat and wind has caused deterioration. Complaint is heard that the corn kernel is not denting and the leaves withering. Some corn on higher ground has already been cut to prevent further deterioration. No great concern is voiced, because there will be ample feed. The first cutting of alfalfa was excellent, but the later crop has been harmed at many points by grasshoppers. Throughout this district farmers are buying oats from other farmers. Bankers state that they are encouraging farmers to buy oats and will readily lend all the funds necessary for purchasing at a price up to 20 cents per bushel. They feel there will be a good profit if the buyers desire to hold and that the price justifies buying for feeding purposes. Those selling oats are mostly tenant farmers needing cash, with sales also made by State owned farms.

Business in the towns has not been good, the merchants complaining that the farmers are more conservative in their buying than last year. Lake resort bookings were light in July, but increased somewhat during the hotter weather of August. Deposits at most banks are lower than one year ago and the banks are not making any effort towards building up a volume which forces them to seek outside investments. Interest rates on deposits will average a little higher than at more southerly points, and there is a tendency for the percentage of time deposits to increase which also indicates the inclination of farmers to spend less freely.

Several bankers commented on the freer credit advocated by Jesse Jones in the face of continued criticism from F.D.I.C. examiners. One official said that practically every contract they had was the subject of criticism at the last examination, although the bank had had no losses. The average small bank does not want to be bothered with servicing the few Federal Housing loans available.

#### Eastern Minnesota and Northwestern Wisconsin

The banks located in Wisconsin are enjoying a substantial income from service, float and exchange charges. Several stated that if it were not for the important income from exchange charges, they would consider applying for membership in the System. In two instances, however, the bankers spoke quite forcibly in favor of par exchange; one was a national bank and the other a nonmember bank on the par list. It was interesting to note that while the Wisconsin banks are obtaining substantial income from service charges, the Minnesota banks visited are not charging for that service. In Wisconsin the customers expect to be charged and do not object. The Minnesota banks do not make such charges for fear of the loss of business.

There was quite a difference of opinion as to whether the operation of stations or offices in smaller towns of a bank's trade area is profitable. One banker stated that stations did not develop the business desired because farmers are not favorable to offices governed by remote control. In other instances, however, the stations do a substantial business and provide up to 50 percent of the deposit liability of their main offices. Some are limited

to just paying and receiving stations and keep no records, while others carry complete records and make loans.

### Kansas City

Representatives of this bank made a large number of visits to Kansas banks in August. A special effort was made to discuss membership with eligible state banks and these conversations developed rather interesting aspects of the membership problem in that state. At this time the greatest barrier to membership is deposit insurance. Nearly one-half of the non-member banks in Kansas are not insured and most of them will not insure their deposits until compelled to do so. This feeling is, of course, a hang-over from the days of the old Kansas deposit insurance law. A few instances were found where an insured bank was exploiting its FDIC membership to the disadvantage of a non-insured competitor and the feeling between these rival institutions was quite unfriendly. In contrast to this, a larger number of cases were found where banks in a competitive region have a gentlemen's agreement not to insure their deposits until they have talked the matter over among themselves.

After deposit insurance, the next greatest obstacle to membership is the changes in capital structure that would be required in many cases. For instance, a bank in a town of 8,000 population is a good prospect but the officers do not want to increase the capital to \$100,000 and then be forced under the Kansas laws to increase surplus out of earnings to \$100,000 when it is not expected that deposits will be much more than a million dollars. It can hardly be disputed that the bank has an adequate capital structure for its present deposits. If the Federal Reserve Act were amended to permit membership on the basis of an adequate capital structure instead of a population basis only, this bank no doubt would consider favorably making application for membership.

Other factors bearing on the membership question are reserve requirements and the quality of service given by correspondent banks. One bank that should be a member said that with present reserve requirements it would be necessary for them to reduce their balances with correspondent banks and in a few cases to close them entirely and they did not want to do this. State banks also report that city banks are fighting for business as never before and that city banks will do as much for them, if not more, than the Federal Reserve Bank. Occasionally the objection to membership given by eligible banks is the possibility of the passage of the Patman Bill. These banks say they do not want to be members if the Federal Reserve banks are to be owned by the Government.

Many bankers, especially in rural communities, are extremely pessimistic. In general the wheat crop was highly disappointing. The acreage was large but the yield and the quality in many cases were extremely poor and with present prices, cash outlays, let alone costs of production, were often not recovered. The result is that farmers have made little or no

progress in getting out of debt and many existing loans need strengthening. Bankers say it will take from three to five years of good crops and good prices for farmers, as a class, to get on their feet.

A sprinkling of banks are making automobile loans and report them as profitable and satisfactory when carefully watched. To a less extent banks appear to be making farm implement loans. In northeast Kansas, where there will be a good corn crop, bankers say they expect to finance some feeding operations this fall in small amounts to the younger farmers who have shown some ability. It is said that feeders of other years are out of business and so badly involved it would be impossible to finance most of them. There will be much more corn in this District than last year but there is little livestock to be fed. Eastern corn states had an unusually large crop last year and another big one is assured. Bankers express concern that the demand for feeder cattle from eastern corn states will keep feeder prices high but that later the inevitable pressure of fat cattle may make feeding operations unprofitable.

#### Dallas

#### Central West Texas

Torrential rains which fell in McCulloch, Menard, Concho, Mason and San Saba Counties, Texas, during the month of July flooded the watersheds of the Colorado, San Saba and Llano Rivers and inflicted such heavy flood damages that a visit was made by one of our officers to the floodstricken area during the month of August.

Crops throughout the flooded area suffered both directly and indirectly from the rains and floods. The grain crop in McCulloch County was badly damaged and much of it completely destroyed. Cotton suffered from widespread insect infestation resulting from the rains. Highways, lateral roads, bridges and dams throughout the lowlands of the five affected counties were washed out or seriously damaged. WPA funds will be sought to repair these damages.

Banks in this area reported that while the flood will not cause any losses of consequence in their existing loans, it will necessitate some additional extension of credit, which they are willing and well prepared to grant. They were informed that they were welcome to use the rediscount facilities of our bank if needed in connection with the emergency.

Flood damages in Menard County were largely offset by the beneficial effects of the rainfall on ranges and pastures, which had begun to suffer from lack of moisture. Livestock will benefit from the renewed growth of grass and weeds.

#### West Texas

Range conditions in the sheep country of West Texas are generally good as a result of recent rains. In the South Plains, where grain and cotton are

the principal products, conditions are less propitious. Although a bountiful small grain crop has been harvested, prices are disappointing, maize heads being quoted at only \$3.50 to \$4.00 per ton. Cotton in this area has deteriorated sharply during the past month. Excessive rains in the early stages of the plant's growth, followed by a prolonged period of dry weather and high temperatures, resulted in an immature root system. This has cut down the prospective yield, which had already been greatly reduced by the allotment restrictions of the government's farm program for 1938.

### San Francisco

#### Lower Willamette Valley, Oregon

All crops in the lower Willamette Valley, which is also true of the valley as a whole, have suffered severely by reason of an unusually long, dry summer. There has been no effective rainfall since May. A considerable portion of the grain crops are spring sown and these, particularly, have suffered so that only about one-third of normal production of these crops will be harvested, and in some places spring oats are not being harvested at all. Fall grain and hay crops are somewhat better altho harvest will fall below normal production. This situation, coupled with general price decline in agricultural products, will materially affect farm income this year.

Hot weather during the height of the strawberry and raspberry season was so severe that only small crops were produced. The marketing of cherries was adversely influenced by the heavy carry-over of barrel cherries from last year, with 1938 prices around 3 cents against 7 and 8 cents in 1937.

While the Hop Growers Allocation Committee, functioning under the recently concluded Federal Hop Marketing Agreement, has not announced final crop estimates for 1938, some growers are estimating the crop between 40 and 45 million pounds, of which the Hop Control Board has announced only 28,500,000 pounds can be marketed this season. Recent reports indicate that the Control Board is recommending that the growers who are now harvesting leave 20 percent of their crop on the vines. Growers are anticipating a price around 20 cents per pound. This year's crop is being financed only to a very limited extent by banks, which apparently prefer to await the outcome of this year's operations under the marketing agreement.

Walnut and filbert production is estimated to be normal, and, in fact, it is expected that walnut production will exceed last year, with the market reasonably stable. The nut production is practically the only bright spot in the picture.

Lumber operations have recently shown some improvement, with increased order files and somewhat better prices.

Short crops and low prices for agricultural products in this area will naturally be reflected in decreased volume of trade and lower bank deposits this fall.



## PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

AUGUST, 1938

Federal Reserve Bank	Visits to banks			Meetings attended		Addresses made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	40	9	49	None	—	None	—
New York	135	91	226	None	—	1	300
Philadelphia	*	*	126	None	—	None	—
Cleveland	—	—	None	1	25	None	—
Richmond	27	29	56	2	312	1	237
Atlanta	20	5	25	1	32	None	—
Chicago	96	75	171	None	—	2	80
St. Louis	47	161	208	3	570	1	100
Minneapolis	70	121	191	3	675	None	—
Kansas City	29	61	90	1	28	None	—
Dallas	21	2	23	1	70	None	—
San Francisco	36	24	60	5	632	None	—

\* Number not reported.