



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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R-363

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 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 November 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.

December 14, 1938.

To: The Board of Governors Subject: Summary of Bank Relations

From: Mr. Hammond, Division of Reports.
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 November 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 as usual give evidence of the uncertainties that banks are feeling with respect to bond portfolios and the efforts they are making to enlarge their field of lending. In various districts, there is increasing interest in mortgages, installment loans, and personal loans. New York mentions the activities of certain banks in making life insurance loans.

The lending activities of Production Credit Corporations and other government agencies are frequently mentioned. In some regions the lending operations of these agencies are reported to be competitive and the banks are highly resentful of it. In other regions, bankers appear to be well disposed toward the agencies, particularly on the ground that they handle a type of loan which the banks themselves would not choose to handle.

Minneapolis and Kansas City both report that country banks are much interested in the bearing of the wage and hour law upon their business.

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

BOSTON

The Sixteenth Annual Meeting of the Stockholders of the Federal Reserve Bank of Boston was held on November 3, 1938, with over 337 representatives of member banks in attendance.

Mr. Henry J. Nichols, Chairman of the Stockholders' Advisory Committee, and Vice President of The National Shawmut Bank of Boston, presided. A short address of welcome was made by Mr. Roy A. Young, President of the Federal Reserve Bank of Boston. The speakers were Mr. Frederick A. Carroll, Vice President of The National Shawmut Bank of Boston, who spoke on "Pension Plans or Retirement Plans," and

Dr. W. Randolph Burgess, Vice Chairman of the National City Bank of New York, whose subject was "Monetary Policy and World Trade." The proceedings of the meeting are in process of publication and copies will be sent to the Board of Governors of the Federal Reserve System and our member banks.

During November visits were made to ten member banks and three nonmember banks in Vermont and Massachusetts.

At those places where factory pay rolls exist, they were reported to be on the increase. Retail trade, however, was reported to be unsatisfactory at all points due to unseasonable weather conditions.

The only complaint heard was that of insufficient demand for bank loans. Two of the member banks and one savings bank have invested heavily in FHA Title II mortgages on out-of-state properties. In each instance the banks sent committees of directors to inspect the properties before buying the mortgages, and the policy was to keep the average of the notes under \$5,000. The mortgages held by both member banks are being serviced by the out-of-state banking institutions from which they were purchased. The savings bank is attempting to service its own paper.

NEW YORK

Cattaraugus County (Buffalo Branch Territory)

Total security investments held by the banks visited aggregate \$14,154,000, of which \$4,975,000, or 35 per cent, are United States government issues. Three institutions report some appreciation in their lists, but the remaining banks show depreciation ranging to as high as 13 per cent.

The demand for credit for commercial and agricultural purposes in general continues light, although several officers of the smaller banks mentioned that they are experiencing a somewhat better demand for loans. As a general rule, 6 per cent is charged by these banks on all loans. One bank in the county recently opened a personal loan department and several banks are discounting finance paper for local automobile dealers and electrical appliance concerns, which has afforded some outlet for funds. Both Title I and Title II Federal Housing Administration loans are being granted in communities where there is a demand for this type of accommodation.

Executives of the five nonmember banks, while friendly towards the System, have, with one exception, given little consideration to

membership, and in most instances their condition would not appear to enable them to qualify. The president of one nonmember bank (deposits \$1,403,000) previously expressed the desire to file an application, but states that he has decided to do nothing at this time due to the provision of the law which requires a minimum capital of \$500,000 if they desire to operate branches beyond the city limits. This bank is apparently in good condition and its president keeps in close touch with the affairs of banks in neighboring communities, having in mind that some time in the near future he may have an opportunity to absorb one or more of them as branches. He believes some of these banks will be forced to suspend operations because of lack of earning power. As branch banks, however, he feels they can be operated profitably. It is his opinion that the Federal Reserve capital requirements in this connection are too rigid.

Herkimer, Madison, Oneida, and Onondaga Counties

The majority of banks continue to have a net depreciation in their security portfolios amounting to a rather sizable figure in some instances. The comparatively few institutions which have a net current appreciation (or a very small depreciation) are principally those located in the smaller or rural communities, whose investments consist of a larger proportionate amount of United States government, municipal and other public issues, and a relatively small amount of railroad obligations.

Officers of banks in the industrial and larger centers report that there has been little seasonal expansion in loans this fall, and that any substantial increase in the demand for old-type commercial loans appears remote. In order to improve their earnings, many banks have broadened their loan policies and have entered the field of granting personal loans, handling automobile and other installment financing, purchasing Federal Housing Administration mortgages, etc. One national bank in Syracuse (deposits \$21,000,000) has granted within the past year about \$1,000,000 of loans secured by cash surrender value of life insurance policies, charging a rate of 4 per cent on loans up to \$5,000 and 3 per cent on amounts over \$5,000. In many instances the borrowers have transferred their loans from insurance companies in order to take advantage of the lower rate of interest charged by the bank.

Recent developments in the industrial cities in this Central New York area have generally been of an encouraging character. The trend of business in Syracuse has been upward throughout the fall season. Improvement in the automobile industry has brightened the business outlook there because of the numerous local manufacturing

plants, large and small, which are engaged in producing materials and parts for motor cars. Some of the shops producing special machinery, tools, and dies are very busy, which is looked upon as a good sign, indicating that manufacturers are re-tooling and preparing for new and larger production. The monthly publication of the Syracuse Chamber of Commerce shows that in the week ending November 5, the total pay rolls of twenty-two industrial concerns representing diversified lines of production amounted to \$307,000. This is a new high to date for 1938 and is a gain of 22.5 per cent over the week ending September 3, but a decrease of 24.8 per cent from the comparable week a year ago.

Jefferson, Lewis, and St. Lawrence Counties

Loans have shown little fluctuations throughout this area. Three banks, however, located in villages where industrial plants are active, have been able to expand their volumes substantially through personal loans and one, in addition, has developed a satisfactory amount of Federal Housing Administration Title I loans. The total of farmers' loans has remained almost stationary because no substantial volume of new loans is being made and payments on old loans are small in amount due to the low farm income. It is said that the legitimate demands of the dairy farmers in this area have been taken care of, but in general they are now operating without the extensive borrowing which was customary in the past. It is expected that the demand for accommodation will increase early in the year when taxes become due and milk production is low. The facilities of the Production Credit Association have not heretofore been widely used in this territory, it is said, due to the schedules of repayments being considered too heavy, but the banks are not unfriendly to the Association and will doubtless refer applications to it if they cannot meet the demands for credit.

Nassau County

Investment portfolios now amount to \$56,900,000 reflecting an increase of about \$1,300,000 since March, almost all of the increase being in United States government issues which now total \$25,900,000. A number of bankers indicate that they are limiting new purchases of securities to United States governments and that their holdings of these securities are largely in maturities of ten years or less. Fourteen banks report that their bond accounts still have some appreciation while the others have a depreciation which in some cases is large enough to cause an impairment in the common capital.

Loans and discounts now aggregate \$43,250,000 showing an increase of \$3,300,000 since the first of the year. Many bankers speak of the

improvement in earning power of their institutions resulting from granting personal and Federal Housing Administration loans. Thirty-two institutions now have approximately \$1,300,000 outstanding in personal loans as compared with \$1,100,000 in March. Thirty banks have placed a total of \$1,700,000 in home repair loans under the new provisions of Title I of the National Housing Act and twenty-six have granted \$20,500,000 in Federal Housing Administration Title II mortgages of which \$15,500,000 have been sold to insurance companies, other banks, or the State Comptroller. A number of banks are granting loans to local borrowers against life insurance policies and two institutions are taking on loans of this type through New York brokers who have been canvassing the country.

Morris, Sussex, and Warren Counties, New Jersey

In the eighteen counties visited, there are 237 commercial banks of which 164 have issued preferred stock, capital notes or debentures aggregating \$27,715,114 par value. Up to the present time only nineteen institutions have paid off their entire issues amounting to \$2,367,500, one hundred have made partial redemptions aggregating \$3,378,864.50 and forty-five have not retired any - leaving one hundred forty-five banks with a total of \$21,968,749.50 par value still outstanding. The latter amount is retirable at \$33,265,959.50 reflecting a redemption premium of \$11,297,210.

PHILADELPHIA

The area covered by this report is for the most part in the mountainous regions of Pennsylvania. Agricultural activities are confined chiefly to dairy farming, and the raising of grains, potatoes and poultry. Prices for all but poultry products are considered entirely too low. Wheat is selling at prices varying from 50 to 60 cents a bushel and potatoes are selling for 60 cents or less a bushel, 20 cents being quoted at one bank as the lowest price. In some sections the blight ruined the potato crop and some farmers failed to harvest enough for next year's planting. Milk prices have been low. In some communities milk has been selling for less than \$1 a hundred pounds. Recently, however, there has been an adjustment in the prices and the new schedule was said to call for a base of \$2.05 a hundred pounds.

Industrial conditions, except in the oil and gas fields, present a brighter picture than when these counties were visited last spring. Nearly every community reports a decided improvement in pay rolls and employment. Some towns which had lost industries either through failure or transfer have had new concerns locate there as a result of efforts by citizens' committees or the local boards of trade.

In one county the establishment of new industries has resulted in the employment of about 500 additional workers, in another 175, and in a third about 200.

Oil production is at a low level and many operations are shut down entirely. The price has declined from \$2.05 to \$1.68 a barrel. Many gas wells have been exhausted and there is little drilling for new wells, although some is expected in the future.

Deposits of the banks in this area have increased about \$375,000 since last visited in the spring but there has been no appreciable general strengthening of credit demand. The 6 per cent rate prevails on loans, but at several institutions the rate varies according to the collateral offered or risk involved.

F. H. A. mortgages are gaining in popularity among these bankers and, while many are without opportunity for creating them in their respective communities, they are purchasing those secured by properties in the larger eastern cities. The majority of the banks report depreciation in investments but only in a few cases is it sufficient to impair the capital. This matter appears to be receiving the attention of the banks' officers and directors.

Business activity has increased substantially since early summer, showing a trend of industrial operations that has been in sharp contrast with that prevailing in the same period last year. Factory employment and wage payments have expanded almost steadily as has been the case in the entire district. Agricultural income also has increased, and sales of new passenger automobiles turned up slightly in October from the exceptionally low point reached the month before. The marked improvement in building and construction reflects principally a large increase in the volume of operations partly financed by public funds.

CLEVELAND

There has been some criticism of charge-off requirements in connection with bond depreciation under the new examination program. This is occasioned largely by the fact that charge-offs are required (of necessity) at varying price levels of securities, and the greatest criticism naturally comes from institutions which

were required to make such charge-offs when investment securities were at the lowest levels. The majority of banks, however, have accepted charge-off requirements as part of a sound banking policy.

There is much criticism of the activities of Federal savings and loan associations in connection with their advertising programs, as well as the competitive factor which develops as a result of higher rates paid by savings and loans as compared with member and insured nonmember banks. Despite the prohibition in regulations against Federal savings and loan associations representing themselves as deposit institutions, there is no doubt that much of their advertising is misleading the public. There is one such institution in Cleveland which has prominently displayed in its front window, a sign to the effect that "deposits made up to the 5th of the month will draw interest from the first of such month."

That greater use is not made of the two principal service facilities of the Reserve banks by member banks - check collection, and money services - appears to be due to the fact that Reserve bank requirements in connection with the collection of checks, despite the relaxation in certain respects, are still more stringent than those of correspondent commercial banks in the principal cities. Use of Federal reserve banks as agencies for furnishing coin is limited because of the fact that most correspondent banks will furnish wrapped coin upon request of a correspondent bank.

Suggestions made by member bankers to visiting representatives during the month include one that the Reserve System might consider bringing to the attention of member banks the desirability of budgeting their expenses. One large bank in a principal city is highly pleased with the results they have attained through a budget system, and believes that an educational campaign on the part of Reserve banks would be a great service to member banks not now familiar with budgeting. Another banker has suggested the desirability of Reserve banks keeping member banks informed with respect to called bond issues.

The tobacco markets will open in Kentucky on December 7. Immediately following these sales loans tend to run off sharply. The excess funds which cannot now be profitably employed will be greatly increased.

RICHMOND

During the month representatives of this bank had an opportunity to attend 7 bankers' meetings and visit 89 banks.

There has been an increased interest in membership during the past three months, which is doubtless due in part to bank relations activities. One nonmember bank has been admitted to membership, three formal applications are now on file, and several other nonmember banks are giving serious consideration to the matter.

While there is much dissatisfaction in this district as to exchange charges on checks, there have been few voluntary changes in the par list during the past few years. Since January 1, 1936, one State member has withdrawn from the System to become a nonpar bank, one national bank has converted into a nonpar State bank, and one branch office of a nonmember bank has withdrawn from the par list. During the same period five nonpar banks and one nonpar branch agreed to remit at par, and one new nonmember bank and one new branch of a nonmember bank were added to the par list when they opened.

Service charges continue to be a live question and the subject was discussed at length at several of the group meetings attended by our representatives. Committees were appointed by some of the groups in Maryland to prepare schedules. A number of regional clearing house associations have been organized in Virginia, and the officers of the State association are actively engaged in promoting others.

In West Virginia movements of coal recently have been rather active, resulting in increased employment for train and maintenance crews, as well as miners. Some mines are operating two eight-hour shifts five days a week. In Greenbrier County a large lumber company handling hard woods exclusively is operating on a much improved schedule over last year and now has approximately 30,000,000 feet of lumber in their yards in process of seasoning. A number of glass factories in the north middle portion are closed for lack of orders, which is attributed for the most part to foreign competition.

In the six counties nearest the District of Columbia there are few manufacturing plants except those in and adjacent to Alexandria and Fredericksburg. In each of these two localities the bankers report that industries are operating on full schedules and that renovating and new home building are above average. This is particularly true of Alexandria and a large portion of Arlington County.

The average price of tobacco in Southside Virginia has been from 3 to 4½ cents per pound below last year. The tendency has been for the

finer grades to bring substantially lower prices, while the commoner grades have been bringing much higher prices than last year. The cheaper grades on the early markets were approximately 50% higher than last year, but as November progressed prices dropped about 25% from the high. There was an acreage curtailment of approximately 20% this year, and, as a result of unfavorable weather conditions, the crop averaged about 12% less per acre.

In recent years there has been a shifting in Southwest Virginia from heavy-weight to lighter-weight cattle and to the development of dairy herds. In many communities it was stated that prices for beef cattle this season had been unfavorable and that many cattle growers had not covered actual costs of operation. In addition to agriculture and live stock there are many manufacturing plants scattered throughout the numerous small cities and towns. Many comparatively new hosiery mills are operating at full time and a number of others are in process of organization. These plants, usually located in small communities, are equipped to employ from 200 to 600, according to the labor supply available in the immediate section. The large rayon plant to be constructed near Pearisburg, however, is expected to employ from 15,000 to 20,000 - considerably more than the present population of the entire county.

It is estimated that approximately 14,000,000 pounds of burley tobacco will be sold at the warehouses in Washington County, where the markets will open on December 7.

ATLANTA

Alabama

In November visits were made to 8 member and 3 nonmember banks in the Counties of Jackson, DeKalb, Etowah and Calhoun, a section of north-east Alabama. The yield of cotton was reported to be between forty and sixty per cent of that of last year. In a few instances the farmers had an almost total crop failure and loans to such farmers will have to be carried over until next year. In this section there is less disposition on the part of the farmer to borrow on his crop from the Commodity Credit Corporation than was the case last year. The banks visited reported that collections generally were good.

The steel mills at Gadsden are operating at about seventy per cent of capacity. These mills and other plants manufacturing durable goods have combined pay rolls estimated at around \$300,000 per month. Cotton textile mills and the plant of the Goodyear Tire & Rubber Company are operating with sizeable pay rolls also.

Visits were made also to banks located in eight counties in central and east Alabama. The towns of Anniston, Alexander City, Sylacauga and Bessemer are primarily industrial centers. Textile mills, wood planing mills, large saw mills, iron pipe factories, iron ore mines, chemical plants, stone quarries, and other industrial plants located in the towns named are operating with substantial pay rolls and a spirit of optimism is prevalent. Our representative was informed that inventories of the local merchants are low.

Banks located in towns which serve agricultural sections report that collections are good. The chief money crop is cotton and farmers have been faced with a short crop and a low price. In this section also it is reported that most of the cotton crop has been sold, with a relatively small part being placed in the Government loan.

The banks in one of the towns visited are considering a reduction in the rate of interest paid on time deposits from two to one and one-half per cent.

The iron ore mines located in the vicinity of Bessemer are operating practically on a full time basis. Steel mills in the Birmingham district are running at approximately seventy-five per cent of capacity.

One small member state bank estimated its loss from exchange by reason of membership in the System at approximately \$7,000 per annum.

CHICAGO

Notwithstanding the difficulty in employing funds, banks will have sufficient earnings to make necessary charge-offs and other year-end adjustments which will improve their condition. In view of the approaching semi-annual interest period, some banks are considering and some have already agreed on a further reduction of savings and time certificate interest rates. There appears to be a better market for bank stock, and a number of banks will increase their capital by selling stock locally with the thought in mind that the time is drawing near when they will be able to pay dividends.

As a result of the failure to pass the banking amendment at the November elections in Illinois removing the double liability on bank stock, there will doubtless be a number of banks changing from State to National charters. As a matter of fact, two banks are now being examined for this purpose. In Iowa, where no double liability is imposed, the situation is reversed, as several banks are contemplating giving up their National charters and operating as State banks in order to establish branches. Three banks in Iowa have already taken this step or are in the process of doing so. (Branch banking is prohibited in Illinois.) There is a tendency on the part of banks that have conducted a savings

and trust business largely, to expand their commercial business.

Better sentiment is reported among business men generally. With respect to the consumer demand for automobiles, reports from Detroit indicate that the public has received the new models enthusiastically and that retail sales have been much better than were anticipated at any time up to the middle of November. Dealer sales in October were 25 per cent under 1937. Early in November the figures were still under those of 1937, but it is believed that the total for the month will be greater than last year.

Prospects in some lines of furniture continue good. One manufacturer of kitchen equipment, including cabinets for refrigerators, reports that his company has already received orders for twice the amount of its total output last season, and that it expects to make some enlargement in its plant capacity.

The activity in corn loans referred to in last month's report continues. While some farmers are resealing their 1937 crop, a large percentage of the maturing notes is being paid by the delivery of corn. Loans on the 1938 crop became available December 1. It has now developed that many farmers eligible under the A.A.A. are sealing their corn and buying enough to meet their own requirements from neighbors who are ineligible for loans by reason of non-compliance with the farm program, the result being that the market for home consumption has been raised as much as five cents per bushel over the price obtainable if the corn were shipped to terminals.

Farmers are well pleased with the sustained market for hogs, cattle, and sheep. The real marketing season has not yet arrived, but if present prices are maintained, a large spending power will be placed in the hands of the farmers in this district.

ST. LOUIS

During the month our officers and field representatives visited 227 banks, of which 120 were in Missouri, 41 in Kentucky, 37 in Indiana, 20 in Mississippi, and 9 in Illinois.

Business conditions show improvement in the rural sections visited, although there has been no marked increase in the prices of farm commodities. Industrial employment has increased in the smaller manufacturing cities where labor difficulties have not affected operations. Agricultural sections visited are primarily interested in feeding livestock. It is estimated that feeding operations this winter will be larger than those of recent years. The low price of corn is one of the principal reasons.

Officers of six Kentucky banks reported that while considerable of the dark fired tobacco crop was damaged by wild fire, a good price was anticipated for the remainder of the crop. One entire crop was sold in the barn for 12¢ per pound.

In northwest Missouri there are prospects of a new oil field. It is known as the Forest City Basin, and embraces ten counties. A number of companies are in the field obtaining oil leases, and the activity has aroused considerable interest. While no wells have yet been drilled, one has been started at Milan. Officers of three member banks and one nonmember bank located in different Indiana cities also reported leasing of property for oil exploration. Some wells have been drilled, which have been productive.

In many communities local demand for credit was reported as good. Loan rates range from $4\frac{1}{2}\%$ to 8%. Some of the larger banks have established personal loan departments with encouraging success.

Because of liquidation of livestock holdings, deposits of country banks continue to rise. Two and one-half per cent is paid on time money with few exceptions. One bank which is not a member of the FDIC continues to pay 4% per annum on savings accounts. This rate is confined to old deposits.

Special comments were made by the president of a Mississippi member bank on his visit to our Memphis Branch to attend the luncheon given in connection with the conference of the boards of directors of the parent bank and the branch. Two members of the Board of Governors, Messrs. Szymczak and Davis, attended the conference and the bank president's comments were directed particularly to remarks made by Governor Davis at the luncheon. The banker stated that this was the first meeting he had attended where there was a note of optimism expressed instead of a warning. Another member bank president has sensed an effort on the part of the Federal Reserve System as a whole to render greater service.

Although his bank does not accept interest bearing deposits, the assistant cashier of a small Missouri nonmember bank complained about the sum of \$40,000 on deposit at the local post office. The bank's deposits are listed as \$94,000. Earnings of the bank are unsatisfactory and it was indicated that the bank might withdraw from the par list in order to correct this situation. No action will be taken on the matter for the present. Another nonpar Missouri bank has experienced a number of losses on real estate loans which it is evidently endeavoring to eliminate out of earnings. The bank's cashier believes the practice of charging exchange is wrong but stated unsatisfactory conditions made it necessary. It appears that unless other banks in the adjacent territory withdraw from the par list, officers of this bank will again par its items as soon as the losses have been eliminated.

The cashier of an Indiana nonmember bank located in a city of 3900 population, expressed the opinion that Federal Statutes should permit branch banking, provided the capital structure of the parent bank is 10% of the total deposits of the parent bank and branch. It was mentioned by our visiting officer that officials of the Indiana Bankers' Association and of the State Banking Department were among the strongest opponents of branch banking.

As our visiting officer entered a small Kentucky nonmember bank, he noticed an elderly gentleman seated at a work bench on one side of the lobby, busy repairing trinkets of several kinds. Not associating him or his work with the bank, our officer proceeded to a teller's window where he met the lady cashier, who explained to him that the elderly gentleman was the bank's president. The president, who was 85 years old, then explained that the trinket work was a pet hobby at which he loved to work when time permitted. Conversation with him left no doubt as to his general soundness and the liquidity of his institution.

MINNEAPOLIS

Southwest Minnesota

Generally speaking, the banks with excess funds have been active in making 1937-8 corn loans and taking loans secured by resealed 1937-8 corn and will take 1938-9 loans secured by corn. Banks with expanded local loans prefer to limit their holdings of corn loans in order to obtain more earnings and meet local demand. A few of the banks state that there is too much "red tape" connected with these loans and they refuse to handle them.

Banks are becoming active in taking car and farm implement paper on an amortized basis endorsed by responsible debtors or otherwise secured. Apparently their experience has been satisfactory. A substantial number of tractors and power equipment is being sold in the territory, influenced somewhat, it seems, by the loss of horses from sleeping sickness.

Live stock feeder loans have been popular investments, induced by low corn prices, abundant roughage and tempting prices of feeder stock. This business is gradually tapering off now, following a gradual rise in feeder stock prices to a point where the investment becomes more speculative.

Open House, Kanabec State Bank, Mora, Minnesota

Mr. Frank Powers, President of the Bank, is one of the foremost bankers of the State, both as to the earning power of his bank and as

to his relationships with his customers. Each year, he holds a stockholders meeting at which he outlines the problems of the bank and asks the stockholders to defend the bank in the community. At this particular meeting, he discussed the new Federal Wages and Hours Law, which he said was going to compel the Bank to open an hour later each morning and to close on Saturday afternoons. He asked the stockholders to explain the reasons for this change and to assure the public that the bank was desirous of giving as good service as before, but that the new Law made it impossible. He announced that, while business conditions were not quite as good as last year, the net profits of the Bank would equal those of last year and would permit payment of the usual dividend.

Group Meetings in North Dakota

Some consideration was given to suggesting legislation designated to nullify the "moratorium laws" now in effect in North Dakota. There seemed to be some support to a movement to influence legislation along this line until a legislator, who is also a North Dakota banker, made the statement that bankers as a group are not very well regarded politically and that as a voting group their members will not influence any legislation. He followed by saying that the borrowers who had taken advantage of these laws were in so deep financially that they were satisfied to continue to obtain protection from such legislation and until such time as a new generation grows up and demands credit and is unable to obtain assistance because banks are not protected such statutes will not be eliminated and no organized effort by a minority group will materialize.

KANSAS CITY

The outstanding topic of discussion among bankers in November was the wages and hours law. A greatly confused condition exists. Most small banks do not believe they are engaged in interstate commerce and yet they realize that an obligation may be accumulating. The hope is universally expressed that an official ruling may be had in the near future that will clarify the situation. Opening an hour later or closing an hour earlier is the usual solution.

Among smaller banks, especially in agricultural regions, deposits appear to be slowly decreasing. At the same time a good many such banks report an increase in demand for loans. There is said to be a demand for money to buy cattle and sheep in Colorado and in sections of Kansas where there are large supplies of feed. Because of the relatively high prices of livestock, however, bankers appear quite uncertain as to how far it is safe to go with livestock loans. There appears to be a rather heavy demand for certain types of impossible loans. For instance, a number of banks report that farmers are trying to borrow money to pay interest to the Federal Land Bank.

Resentment against the aggressive tactics of certain government lending agencies shows no sign of abating. In particular, bankers in Oklahoma are outspoken on this subject. Apparently considerable effort is being made to meet this competition, especially as regards rates. It is generally appreciated, however, that this is not a whole-some competitive situation. The belief is prevalent that some of the government agencies are accepting many subnormal risks.

From all indications most communities are becoming accustomed to service charges. Banks report that there is virtually no complaint of such charges and that they are a substantial source of income. For instance, a banker whose institution has deposits of \$800,000 says their earnings from service charges are equal to \$8,000 a year.

There appears to be considerable concern among banks regarding the government bond situation. A good many cases were found where these securities have been sold. Banks are holding large amounts of local municipal obligations, the return on such investments being about 3 per cent. In fact, some banks hold more municipals than Federal securities. Real estate loans appear to be on the increase. Some of these loans are amortized while others are not.

Bankers in small communities almost invariably inquire as to the future of a small country bank. Few of these institutions appear to be making any money and a number of cases were found where there are definite plans for liquidation. Even in larger places many instances are found of an overbanked condition and further consolidations and liquidations appear probable.

There is general satisfaction with the price of livestock. The belief is also expressed that better business conditions in the east will be helpful to livestock prices. The winter wheat situation appears unusually spotted. Rain is needed almost everywhere in the District but in many places there is a good stand of wheat and a fair amount of subsoil moisture. In other localities, however, wheat is in a very poor condition. Banks report that government crop insurance is not popular in western Kansas as many farmers feel the premiums are far too high. There appears to be a good deal of speculation as to the future of wheat and especially what the recent trade pacts may do for this commodity. In general, however, there seems to be little expectation of substantially higher wheat prices.

DALLAS

Our officers visited thirty-three member banks and three nonmembers located in fourteen of the fertile "blackland" counties of North Texas.

In this area, where agriculture is the predominant activity, farm income this year has curved steeply downward by reason of the combined and successful efforts of nature and the AAA program to curtail the production of cotton. Moisture deficiency reduced the per-acre yield and the drastic cut in acreage allowance further accentuated the decline. The shrinkage in 1938 farm earnings, however, was offset in part by the distribution of a large aggregate of subsidies on last year's operations and by the appearance, for the first time in this section of the State, of a decided trend toward the adoption of a more diversified and intelligent program of agricultural production. The new program has four cardinal objectives: The furtherance of reclamation and flood-control projects, the planting of long-staple varieties of cotton, increased production of other "money crops," including cattle, hogs, poultry and dairy products, and the promotion of "dry lot" cattle-feeding facilities through the increased use of silos. On the whole it may be said that agriculture in these fourteen counties stands to gain rather than lose as the net result of the disrepute into which its chief product, cotton, has fallen as a source of revenue.

Member banks in this "blackland" region were found to be reasonably prosperous. A majority of these banks regard the farmer as being a less desirable credit risk than he was in former years. Although government aid has tended to make his debts somewhat more certain as to repayment, it has also undermined to some extent his thrift, industry and sense of personal responsibility for his own fortunes, according to the testimony of his local bankers.

The interviewed bank officers in the visited area professed general satisfaction with their Federal Reserve relationships and with the course being pursued by the Board of Governors with respect to monetary and banking matters. A few criticisms were voiced with respect to other governmental agencies and organizations. The most common of these related to the manner in which the triple-A program is being administered - particularly by county agents and other local officials, whose gross inefficiency in some cases has been the target of wide-spread and severe condemnation.

The question of reviving our former practice of holding annual meetings of our stockholders was discussed. The preponderance of opinion was adverse. It was pointed out that the member banks in this district have no problems or grievances to discuss so far as their Federal Reserve relations are concerned, and that the holding of stockholders' meetings, as such, for discussion of other subjects would entail an unwarranted and rather expensive duplication of the opportunities already afforded for such discussions at the annual conventions and "group meetings" conducted by the Texas Bankers Association.

Those who expressed approval of such meetings pointed out that the members of Congress and the Board of Governors do not now have adequate

contact with the problems and views of the member banks, particularly the country member banks, which, on a numerical basis, constitute the bulk of the System's membership. They complained that legislation and regulations vitally affecting thousands of small banks are constantly being adopted without giving such banks a reasonable chance to be heard. It was asserted that the governing and supervisory authorities rely almost solely upon information and advice given them about rural bank problems by city bankers who happen to be better known but who do not always know the true situation in the agricultural communities. These complainants are inclined to believe that if annual conventions were held by the member banks they would afford a medium through which their views would become more articulate and effective.

SAN FRANCISCO

San Joaquin Valley, California

The crops which are currently being harvested have in general been large. Prices, however, have been disappointing to growers, and there has been a tendency to hold off sales, particularly of grain, hay and cotton. There has also been a late season for raisins, as the weather has not been suitable for drying. This has slowed up the liquidation of some seasonal loans, but on the whole bankers expected that liquidation of their seasonal loans would be complete by the end of November.

Orange County, California

With one of the largest valencia crops on record harvested at prices about the lowest ever received, the growers will either about break even or will lose money, depending upon the type of grower, size of his fruit, and the yield per acre. As a consequence, the growers are in none too good a frame of mind. The 1939 valencia crop promises to be the largest on record, but its size will probably be reduced considerably by droppings and scarred fruit caused by recent windstorms.

Bean growers have also fared poorly, with very low prices received. On the other hand, beet and chili pepper growers received fair prices and should make some money. In spite of the low prices received for agricultural products, retail business in the County has held up well, and in one locality at least is ahead of last year. This is attributable to the increased expenditures required to harvest the bumper orange crop. There will be many carry over citrus loans this fall, and an increased demand for funds during the coming season. The banks, however, generally finance only the more substantial growers, the balance being taken care of by the Production Credit Association, so that they are not at all disturbed.

Deposits have held up remarkably well, but it is a question whether they will not be drawn down considerably later on. Housing activities show a moderate increase in some localities; in others they are at a standstill.

Salt River Valley, Arizona

The citrus crop is somewhat larger than that of last year. Estimates for grapefruit for the 1938-39 season are placed at 2,800,000 boxes, and oranges at 360,000 boxes. The crop is moving to market, but there is little assurance of increased prices for the fruit.

The winter lettuce crop is developing satisfactorily, and conditions generally indicate prices to the grower should be good.

Arizona's cotton crop is estimated at 197,000 bales, as compared with the 1937 production of 313,000 bales.

Although cattle and sheep have held up remarkably well, they nevertheless reflect the unsatisfactory condition of the ranges, which are spotted. It is reported that ground feed is scattered, but browse is still good and will no doubt be an important factor in keeping down losses during the coming winter. Many outfits will have to feed some concentrates before spring, even if a mild winter is experienced. The cost of feed is considerably less than a year ago. There is some movement of cattle and sheep to southern valleys for the winter. Although many cattle are being corral fed in this section, the operation is less than it was last year.

Tourist travel affords an important source of income and employment in the state, and, together with the mines, which are employing more people and producing more copper than has been the case for over a year, conditions are now better than they have been for some time past.

Building activity has increased materially during the year, especially residences, and there is a program for public school buildings under way in the Salt River Valley which is estimated to involve a cost of close to \$6,000,000.

Utah

The marketing of turkeys for the Thanksgiving trade had been completed and the returns were considered quite satisfactory. All but a very small percentage of the birds carried a prime grade and based upon the New York market of 29¢ per pound brought 24¢ per pound FOB shipping point.

Bids were opened a few days ago for the construction of two tunnels in connection with the Salt Lake Aqueduct Division of the Provo Reservoir Project and it is anticipated that work will be commenced within a few weeks with greater activity concerning the project as a whole following the winter months. Clearing of the dam site in Provo Canyon, construction of the dam and new road grades have been under way since May 1938 under a contract totaling \$2,139,000.00 which calls for the completion of this phase of the work in 1942. Estimates of the United States Bureau of Reclamation of the cost of the Aqueduct Division alone is \$5,500,000.00 and the total cost of the ultimate project at fifteen and a half million dollars.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

November - 1938

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	17	3	20	7	#	None	--
New York	166	57	223	10	5,592	3	80
Philadelphia	54	24	78	2	3,075	1	140
Cleveland	182	20	202	11	2,200	None	--
Richmond	67	22	89	7	6,280	1	140
Atlanta	26	9	35	3	205	None	--
Chicago	20	1	21	4	3,775	None	--
St. Louis	46	181	227	5	567	1	50
Minneapolis	43	34	77	8	1,030	6	628
Kansas City	42	72	114	3	3,370	None	--
Dallas	42	3	45	3	4,000	None	--
San Francisco	49	15	64	12	846	1	50

Number not reported.