



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

1

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 1, 1938.

R-273

Dear Sir:

The statement issued by the Treasury regarding the revision of procedure in bank examinations as agreed to by the Secretary of the Treasury, the Board of Governors, the directors of the Federal Deposit Insurance Corporation, and the Comptroller of the Currency, will be published in the forthcoming issue of the Federal Reserve Bulletin. For your use in the meantime, however, a number of copies of the press release as issued by the Treasury are being forwarded to you under separate cover.

Very truly yours,

A handwritten signature in cursive script that reads "Leo H. Paulger".

Leo H. Paulger,
Chief, Division of Examinations.

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



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-274

2

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NOZTOP - Treasury Bills to
be dated July 13, 1938, and
to mature October 13, 1938.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

3

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

R-275

July 12, 1938

SUBJECT: Audit of Stock of Unissued Federal Reserve
Notes and Federal Reserve Bank Notes in
Vault at Bureau of Engraving and Printing.

Dear Sir:

There is inclosed, for your information, a copy of a letter from Mr. M. R. Loafman, Chief, Division of Public Debt Accounts and Audits, Treasury Department, advising the Secretary of the Treasury that an audit of the stock of completed Federal Reserve notes and Federal Reserve bank notes on hand in the Federal Reserve vault at the Bureau of Engraving and Printing was begun on June 29 and completed on June 30, 1938, as of the close of business June 28, 1938. Mr. Loafman states that the amounts on hand, \$2,813,100,000 of 1928 Series and \$2,997,460,000 of 1934 Series Federal Reserve notes and \$450,800,000 of Federal Reserve bank notes, were in agreement with the records of the Federal Reserve Issue and Redemption Division of the Comptroller's Office. Copies of detailed statements "A", "B" and "C" which accompanied Mr. Loafman's letter are also inclosed.

Very truly yours,

J. R. Van Fossen
J. R. Van Fossen, Asst. Chief,
Division of Bank Operations.

Inclosure

July 6, 1938

The Honorable

The Secretary of the Treasury

Sir:

An audit has been made of the completed stocks of unissued Federal Reserve notes and Federal Reserve Bank notes charged to the Federal Reserve Vault in the Bureau of Engraving and Printing. The audit was begun June 29 and completed June 30, 1938, as of the close of business June 28, 1938.

The following tabulation reflects the amounts as disclosed by the audit:

Under auditor's seal in Vault No. 1, Treasury Building	
Federal Reserve notes (Series 1928)	\$2,813,100,000
Federal Reserve Bank notes (Series 1929)	450,800,000
	<u>3,263,900,000</u>
On hand in Federal Reserve Vault, Bureau of Engraving and Printing	
Federal Reserve notes (Series 1934)	<u>2,997,460,000</u>
Total	\$6,261,360,000

The above balance, comprising 92,505 packages, was in agreement with the records of the Federal Reserve Vault and those of the Division of Public Debt Accounts and Audit and with the statement submitted by the Federal Reserve Issue and Redemption Division of the Office of the Comptroller of the Currency. Detailed information with respect to each of the classes of currency is reflected in the attached statements "A", "B" and "C", respectively.

The entire balance of Federal Reserve notes (Series 1928) and Federal Reserve Bank notes (Series 1929) have been under the auditor's seal since 1937 at which time they were package counted and the seals inspected and no further inspection was made in connection with this audit except to inspect the seal on the compartment in Vault No. 1.

The entire stock of Federal Reserve notes (Series 1934) consists of sealed packages bearing the seal of the Bureau of Engraving and Printing and is under the joint custody of representatives of the Secretary of the Treasury, the Bureau of Engraving and Printing and the Federal Reserve Board. It was, therefore, not considered necessary to break the seals on the packages in making the verification but the brief on each package was examined with respect to the package number, serial numbers of the notes, bank and denomination. The packages were found in orderly arrangement and grouped in such manner as to permit the auditors to accomplish the verification without delay.

Prior to beginning the audit, the Chief of the Secret Service was notified and a representative of his office was present on June 29 and 30, 1938.

Appreciation is extended to the officials of the Bureau of Engraving and Printing and the representatives at the Federal Reserve Vault for the cooperation and assistance rendered during the conduct of the audit.

Respectfully submitted:

(Signed) M. R. Loafman
Chief, Division of Public Debt Accounts and Audit.

STATEMENT "A"

FEDERAL RESERVE NOTES (SERIES 1928) ON HAND IN THE FEDERAL RESERVE VAULT
IN THE BUREAU OF ENGRAVING AND PRINTING*, AS DISCLOSED BY AUDIT
 AS OF JUNE 28, 1938
 (IN THOUSANDS OF DOLLARS)

R-275-b

BANK	5's	10's	20's	50's	100's	500's	1,000's	5,000's	10,000's	TOTAL
Boston	\$47,880	\$.....	\$46,560	\$50,400	\$50,400	\$30,000	\$30,000	\$2,000	\$.....	\$257,240
New York	87,560	.....	25,200	30,000	87,600	64,800	54,400	.....	6,000	355,560
Philadelphia	36,780	15,160	50,320	75,000	78,000	42,000	50,400	.....	.....	347,660
Cleveland	37,040	19,120	107,440	41,400	28,400	39,300	31,600	6,000	.....	310,300
Richmond	22,340	.....	.....	41,600	27,200	28,500	21,000	9,000	10,000	149,640
Atlanta	6,760	9,520	36,720	23,200	20,000	19,600	16,400	4,000	9,320	145,520
Chicago	65,280	.....	114,000	88,200	96,800	108,900	135,200	16,000	20,000	644,380
St. Louis . . . . .	.....	.....	8,480	19,200	24,800	18,400	16,200	.....	.....	87,080
Minneapolis	7,180	2,200	34,080	12,000	22,400	13,300	13,000	.....	.....	104,160
Kansas City	27,640	.....	26,720	22,600	26,000	25,500	23,600	.....	.....	152,060
Dallas	7,760	9,240	22,640	22,600	20,000	24,600	23,400	1,000	2,000	133,240
San Francisco	12,260	.....	13,440	11,800	26,400	21,600	17,200	3,720	9,840	116,260
TOTAL	\$358,480	\$55,240	\$485,600	\$438,000	\$508,000	\$436,500	\$432,400	\$41,720	\$57,160	\$2,813,100

*Entire stock of Federal Reserve notes (Series 1928) is under auditor's seal in Vault No. 1, Treasury Building.

STATEMENT "B"

FEDERAL RESERVE NOTES (SERIES 1934) ON HAND IN THE FEDERAL RESERVE VAULT
 IN THE BUREAU OF ENGRAVING AND PRINTING, AS DISCLOSED BY AUDIT
 AS OF JUNE 28, 1938
 (IN THOUSANDS OF DOLLARS)

R-275-c

BANK	5's	10's	20's	50's	100's	500's	1,000's	5,000's	10,000's	TOTAL
Boston	\$25,200	\$118,200	\$64,640	\$25,000	\$54,400	\$5,200	\$4,400	\$6,000	\$6,000	\$309,040
New York	35,780	180,440	175,840	59,000	130,800	40,400	59,800	2,000	8,000	692,060
Philadelphia . . .	27,600	82,000	64,320	31,000	36,000	6,400	12,000	.....	.....	259,320
Cleveland	11,000	44,360	99,360	31,800	16,800	2,600	3,800	4,000	8,000	221,720
Richmond	16,960	37,120	62,960	10,400	18,000	8,700	9,400	5,000	2,000	170,540
Atlanta	8,260	53,920	35,520	10,400	20,800	7,800	18,600	5,000	4,000	164,300
Chicago	39,660	139,960	104,000	12,200	12,800	10,400	8,200	6,000	6,000	339,220
St. Louis	34,140	37,040	48,560	7,800	23,600	6,600	9,200	4,000	4,000	174,940
Minneapolis	19,600	38,280	47,040	3,800	12,800	3,700	3,800	.....	.....	129,020
Kansas City	11,700	36,440	42,880	5,800	19,600	5,900	15,800	6,000	6,000	150,200
Dallas	4,000	13,840	9,360	3,200	6,800	8,000	8,000	6,000	6,000	65,200
San Francisco . . .	37,420	73,320	93,040	18,800	54,800	11,400	18,200	9,000	6,000	321,980
TOTAL	\$271,320	\$854,920	\$847,520	\$219,200	\$407,200	\$117,100	\$171,200	\$53,000	\$56,000	\$2,997,460

STATEMENT "C"

FEDERAL RESERVE BANK NOTES (SERIES 1929) ON HAND IN THE FEDERAL RESERVE VAULT
IN THE BUREAU OF ENGRAVING AND PRINTING*, AS DISCLOSED BY AUDIT
AS OF JUNE 28, 1938
(IN THOUSANDS OF DOLLARS)

R-275-d

BANK	5's	10's	20's	50's	100's	TOTAL
Boston	\$5,020	\$5,000	\$5,040	0.....	0.....	\$15,060
New York	860	27,320	18,000	6,600	22,800	75,580
Philadelphia	4,100	3,800	13,840	.....	.....	21,740
Cleveland	10,020	10,080	1,520	23,800	23,600	69,020
Richmond . . . . .	.....	10,840	21,600	.....	15,600	48,040
Atlanta	5,040	5,880	15,520	.....	.....	26,440
Chicago	19,380	23,440	24,720	15,000	10,800	93,340
St. Louis . . . . .	.....	2,120	5,040	.....	.....	7,160
Minneapolis . . . . .	.....	1,880	11,280	6,600	14,400	34,160
Kansas City	9,020	2,840	7,120	12,800	8,400	40,180
Dallas . . . . .	.....	.....	1,680	1,200	1,200	4,080
San Francisco . . . . .	.....	4,800	.....	11,200	.....	16,000
TOTAL	\$53,440	\$98,000	\$125,360	\$77,200	\$96,800	\$450,800

*Entire stock of Federal Reserve Bank notes (Series 1929) is under auditor's seal in Vault No. 1, Treasury Building.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-276 9

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 13, 1938.

Dear Sir:

There are inclosed herewith copies
of statement rendered by the Bureau of
Engraving and Printing, covering the
cost of preparing Federal reserve notes
from June 16 to June 28, 1938.

Very truly yours,

O. E. Foulk
O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
June 16 to 28, 1938.

Federal Reserve Notes, Series 1934.

	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
New York	-	33,000	33,000	\$ 3,168.00
Philadelphia	68,000	25,000	93,000	8,928.00
Cleveland	52,000	-	52,000	4,992.00
Richmond	35,000	-	35,000	3,360.00
Atlanta	45,000	-	45,000	4,320.00
Chicago	107,000	-	107,000	10,272.00
St. Louis	25,000	9,000	34,000	3,264.00
Minneapolis	30,000	16,000	46,000	4,416.00
Kansas City	<u>18,000</u>	<u>20,000</u>	<u>38,000</u>	<u>3,648.00</u>
	<u>380,000</u>	<u>103,000</u>	<u>483,000</u>	<u>\$46,368.00</u>

483,000 sheets @ \$96.00 per M...\$46,368.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 15, 1938.

Dear Sir:

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

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

Very truly yours,

A handwritten signature in cursive script, reading "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

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

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board(2)	Payable to Board of Governors
Boston	42,804	1,890	44,694	\$ 587.21	\$ 297.32	\$ 289.89
New York	120,067	--	120,067	1,577.49	1,076.68	500.81
Philadelphia	35,791	1,918	37,709	495.44	256.35	239.09
Cleveland	53,996	1,943	55,939	734.95	267.73	467.22
Richmond	48,529	1,892	50,421	662.45	198.57	463.88
Atlanta	68,767	1,850	70,617	927.80	345.99	581.81
Chicago	92,229	2,137	94,366	1,239.82	1,194.33	45.49
St. Louis	75,229	1,867	77,096	1,012.92	247.61	765.31
Minneapolis	54,304	1,839	36,143	474.86	178.82	296.04
Kansas City	69,983	1,869	71,852	944.02	259.18	684.84
Dallas	63,220	1,848	65,068	854.89	279.72	575.17
San Francisco	90,118	2,056	92,174	1,211.02	385.26	825.76
Board of Governors	521,734	--	521,734	6,854.76	12,590.07	--
Total	1,316,771	21,109	1,337,880	\$17,577.63	\$17,577.63	\$5,735.31

(1) Based on cost per word (\$.01313842) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,581.38) and wire rental (\$11,008.69). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



July 16, 1938.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NOZTUN - Treasury Bills to
be dated July 20, 1938, and
to mature October 19, 1938.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. C. Noell", written in dark ink.

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-279 14

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 16, 1938.

SUBJECT: Code Word Covering Issue of Recon-
struction Finance Corporation Notes.

Dear Sir:

In connection with telegraphic transac-
tions between Federal reserve banks, the follow-
ing code word has been designated to cover an
issue of Reconstruction Finance Corporation notes:

NOWMAND - 7/8% Reconstruction Finance
Corporation notes of Series N,
to be dated July 20, 1938,
and to mature July 20, 1941.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 18, 1938.

SUBJECT: Monthly Report of Bank and
Public Relations Activities.

Dear Sir:

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

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

To: The Board of Governors

July 14, 1938.

From: Mr. Hammond, Division of
Bank Operations.

Subject: Summary of Bank Relations
Reports.

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of June 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 member bank comments upon the recent revision of examination rules. The comments indicate a skeptical attitude on the part of member banks. Although there is disposition to find fault with the judgment of examiners, it does not appear to follow that liberalization of the examination rules is welcomed nor that bankers feel tempted by it to change their lending policy. Their attitude is apt to be that they are already meeting every legitimate credit demand. In this connection, the report from St. Louis includes comment of a member banker - not quoted in the excerpts from the St. Louis report - to the effect that every time there is publicity from Washington in favor of easy credit, bankers receive fresh requests for loans that are without a sound credit basis.

The reports indicate a continuance of good crop prospects in agricultural regions, and reflect a much better feeling in many places regarding business. Comment upon the dearth of demand for commercial loans, the difficulty of pursuing a profitable investment policy, and governmental programs in the field of relief, crop control, soil conservation, etc., is about the same as in previous reports.

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

Boston

During June this bank was represented at the annual meetings of the Connecticut Bankers Association, the Vermont Bankers Association and the Maine Bankers Association, and forty-four member and ten nonmember banks in Vermont and New Hampshire were visited. In addition visits were had with the officers of a number of savings banks affiliated with and occupying banking quarters jointly with certain member banks in New Hampshire.

The communities served by the banks visited are mostly small retail trade centers in a section of the district devoted mainly to farming, dairying, lumbering and catering to the summer vacationist. Here and there throughout the section are small textile and knitting mills, shoe factories, machine shops, woodworking plants and pulp mills, all

of which are operating part time and several of which (woolen and knitting mills) are about to shut down permanently. No large money crops are raised and with the shrinkage of factory payrolls, the principal source of new money is the summer tourist and camp trade. The feeling generally is that this trade will not measure up to the past two seasons.

The banks as a whole report the seasonal demand for loans to be only fair, but as great as the demand a year ago. A few member banks were obliged to borrow during the spring, loans being placed about equally with the Federal Reserve Bank and Boston correspondents; correspondents lending at the prevailing Federal Reserve Bank rate. In most cases the borrowing was brought about by towns coming in for their seasonal requirements. The prevailing rate to individual borrowers is 6 percent with some well collateralized loans made at 5 percent. Loans made to municipalities carry rates from $2\frac{1}{2}$ percent to 4 percent.

Among the banks visited the depreciation in bond lists ranged from 5 percent to 25 percent and averaged around 10 percent.

While there was disposition at some banks to comment unfavorably upon the policies of certain governmental agencies, no direct criticism was made of the administration of the Federal Reserve System or of this bank. At the banks visited during the last few days of the month interest was manifested in newspaper accounts of the new examining rules. While certain features - notably the change in the method of appraising bond values - were commented upon favorably, the view was expressed by practically every banker who had anything to say on the subject that greater liberalization of authority to loan and invest commercial bank funds would not influence him to change the prevailing lending policy of his bank. Bankers express the view that all those in their communities entitled to and applying for commercial bank credit have been taken care of and deplore the fact that the demand upon them is not greater than it is.

New York

Albany, Fulton, Hamilton, Montgomery, Rensselaer, Schenectady, and Schoharie Counties, New York.

Business activity in these seven counties, except in the cities of Albany and Canajoharie, has decreased more than usual at this season of the year chiefly because of lower industrial operations, and the closing down of a large carpet mill and several glove manufacturing plants and tanneries due to labor troubles. Bankers report that the retail merchants are complaining and that some have gone out of business. Conditions in Albany remain fairly stable because of the large number of people steadily employed by the State of New York in its various departments and bureaus. In Canajoharie, the Beechnut Corporation is operating at normal capacity, having 1,100 people on its payroll.

Erie and Niagara Counties (Buffalo Branch Territory)

Security accounts of the banks have increased in total about 4 percent during the past year and now aggregate \$163,594,000 while holdings of United States governments now amounting to \$85,522,000 have increased almost 20 per cent. Depreciation which is confined chiefly to railroad securities ranges up to a high of 15 per cent.

Demand for commercial credit is very limited and loan portfolios continue to decrease. Considerable amounts of funds have been placed in mortgages originating under the provisions of the National Housing Act. One nonmember banker stated that his bank has developed \$500,000 of this type of mortgage and is at present receiving a return of $\frac{3}{4}$ of 1 per cent as a service charge on \$350,000 of these mortgages sold to other financial institutions. In order to partially offset the Federal Deposit Insurance Corporation assessment on deposits, increasing amounts of idle cash are being placed on the call money market although the return is at a minimum. The recent reduction in reserve requirements was favorably received but in almost all instances no material beneficial effects will be noticed at this time as loanable funds are at a maximum with but little demand.

A further downward movement in factory employment and payrolls occurred in the Buffalo area during the month of May 1938. Very recently evidences of a broadening demand for steel have been received by local steel mills and plans for a further cut in production have been abruptly abandoned.

Herkimer, Madison, and Oneida Counties, New York.

The majority of commercial banks have a depreciation in their security portfolios ranging from nominal amounts to as high as 20 percent in the case of one small institution, while the officers of seven banks report some appreciation. The institutions which have smaller depreciation and those reporting an appreciation are for the most part banks with substantial blocks of United States government obligations. A number of bankers remarked that the activity in their bond accounts during the last several months has been in the direction of selling long term corporate bonds (and governments in some instances) and reinvesting in short term United States government securities and municipal issues. The cashier of one national bank gave as his opinion that when the Government floats large blocks of bonds this fall, which he thinks will be necessary on account of the contemplated spending program, it will affect adversely the price of all outstanding long term government bonds and he believes that the drop in prices will not be brought about by any firming up of money rates.

A number of banks in the rural sections have been experiencing quite a good demand for seasonal loans for farming purposes and several also report that there has been some demand for funds by local and neighboring

villages and school districts. In addition to the increased demand for credit, it is said that the State Comptroller has withdrawn funds on deposit with banks throughout the State in preparation for payment of obligations maturing in early July and also some of the villages have reduced their bank balances on account of funds being used for relief and other purposes. These circumstances have reduced the amount of previously idle funds in some of the smaller banks and four of them have found it necessary to borrow on bills payable.

Loans, in general, command a 6 percent rate with the exception of those granted to municipalities and other public units where the rate in the majority of cases is fixed at 5 percent, or lower, in order to meet competition. The president of one bank complained that he recently lost the opportunity of making a loan to a neighboring village, which territory is served by his institution, because one of the Utica banks agreed to take the paper at $3\frac{1}{2}$ percent whereas he could not go below 4 percent.

Summary of Preferred Capital Issues

In the twenty counties visited (in New York and New Jersey) there are 190 commercial banks, of which 136 issued preferred stock, capital notes, or debentures aggregating \$45,280,000 par value. Up to the present time 32 institutions have redeemed their entire issues amounting to \$15,112,500, 70 have paid off a part aggregating \$4,428,787 and 34 have not retired any - leaving 104 banks with a total retirable at \$26,013,713.

Philadelphia

The area visited (Eastern Pennsylvania and Southeastern New Jersey) reflects a lower level of business activity than that existing a year ago. There are, however, some communities where the decline in payrolls has been as much as 50 percent or more. The removal of industry from Pennsylvania to other states to take advantage of a more favorable tax or labor situation is still in progress.

Bank deposits have declined during the year. In agricultural sections this is seasonal, reflecting the farmers' need for funds to finance spring planting and in the urban communities it reflects the need for funds by corporations and individuals as a result of lessened business activity. Credit demand is not good, although some banks report that they appear to have reached their mean, as the total of loans is no longer declining. One banker stated that with the normal loan level known he is now in a position to determine income fairly accurately and fix expenses accordingly. The banks appear to be utilizing all means to extend sound credit and it is believed that the credit needs of the several communities are receiving proper attention.

The prevailing rate of interest paid on deposits is 2 percent, although a few banks still pay $2\frac{1}{2}$ percent. There are, however, a greater number paying a rate lower than 2 percent than there are paying a higher rate. There are also many graduated scales where the rate paid is less

on the larger balances than on the small ones.

Collateraled loans and good mortgage loans in most cases command a lower rate than 6 percent but that rate prevails on most other credit extended.

Numerous complaints were received as regards examinations and examiners. Several National bank officers state that efforts to comply with the examiners' insistence upon financial statements have resulted in loans, which they consider highly desirable, being paid off.

The executive officers of two National banks criticized National bank examiners for allegedly advising bankers as to changes in their investment accounts. One of these officers attributes the present heavy depreciation in securities at his institution to his having yielded to the examiner's criticism of a concentration in utility issues as compared to a relatively small investment in railroad bonds.

Certain bankers in a county which had several institutions closed or restricted during the banking crisis, stated that there was still some evidence of hoarding and that some depositors were inclined to doubt the ability of the F.D.I.C. to stand the strain of a severe and prolonged crisis such as was experienced from 1929 to 1933. There has been some amelioration of public feeling toward banks in one part of this county as the result of a prompt "pay off" by the F.D.I.C. of deposits in a non-member institution recently closed.

Recent information shows that a greater number of inquiries for iron and steel products have been received from consuming industries, but actual orders have not yet materialized in any considerable volume. While the market for building materials has broadened somewhat in late months, new business has not measured up to expectations and is much smaller than a year ago.

The decrease since last year in contemplated construction, as indicated by the value of permits issued for new building, repairs and alterations, is due in large part to the depressed industrial situation. Demand for commercial and manufacturing space continues quiet and the market for dwellings has not expanded as much as it usually does during spring and early summer.

Cleveland

Generally speaking there appears to be a rising tide of confidence which seems to center around increased activity and higher quotations in the securities markets. A substantial number of bankers visited during the past month appear more optimistic than at any time within the past year. Many report substantially increased earnings for the first six months of 1938. In many cases it is reported that earnings for the period

are higher than they have been for similar periods in any recent year. In a number of instances dividends have been increased.

There is evidence of a substantially increased demand for real estate mortgage loans, and many banks are granting substantial lines of credit on FHA insured mortgages. A number of institutions have inaugurated small loan departments, or have extended their operations in this particular field. This has been an important factor in the increased earnings of many institutions.

Practically no comment has been heard concerning the change in regulations governing the purchase and holding of investment securities, and such statements as have been made were generally to the effect that no change in present policies and practices would likely be made.

Many banks continue to maintain a high cash position rather than to invest in securities, in sections where there is no local demand for loans.

The plan of accepting for collection par checks sent by member banks on a two-way sort basis has been in operation long enough to appraise some of the results. Approximately twenty banks hitherto not using our check collection facilities are now collecting checks through us. Thirty-four banks using photographic equipment are now sending items to us under an agreement which provides that the film need not be sent to us but that a description of any item will be furnished upon request, or the film covering a specific letter will be sent to us on request. The daily average increase in items, exclusive of government checks, has been in the neighborhood of twenty thousand.

Richmond

Western Maryland and Mineral County, West Virginia.

Crop conditions in western Maryland are in general very good. Conditions in Allegany County, Maryland, and Mineral County, West Virginia, have been adversely affected by the decline of lumber, coal mining, and the activity of railway shops. On the other hand, this region has been favored by the development of paper and rayon industries. Thus, the plant of a large pulp and paper company is reported to be working on a full-time basis and employing about 1,700 persons. Carroll County, Maryland, has a highly developed agriculture which is fairly prosperous. Crops are quite diversified and this has lessened the impact of the depression.

Manufacturing centers in western West Virginia experienced a decline in production and this has been accompanied by a growth of unemployment. Unemployment also prevails throughout the coal-mining regions in the state, and the banks in these regions report a decline in loans and discounts, with some tendency for deposits to decline.

Westmoreland, Richmond, and Lancaster Counties, (Northern Neck) Virginia.

Mixed farming prevails in this region and, generally speaking, the farmers have not felt the ill effects of the depression. Farming activities are somewhat supplemented by fisheries and the canning of fruits and vegetables.

Southwestern Virginia

Wise County is quite dependent upon the coal-mining industry, and this industry is relatively inactive at this time, Practically all mines are operating only one or two days in the week. As a result business is also very inactive. Banks in Wise County are in general charging 6 percent on local loans and are paying $2\frac{1}{2}$ percent on time deposits. Some 4 percent loans have been made, and certain banks graduate the rate on time deposits from $2\frac{1}{2}$ percent downward.

Lee, Russell, Scott, and Tazewell counties are largely dependent on agriculture and live stock for their prosperity. General speaking, these counties are in a rich agricultural region with rather well-developed mixed farming, supplemented by the live stock industry. In consequence, conditions are relatively good, though the purchasing power of farmers has declined considerably within the past year.

Lee, Kershaw, Williamsburg, Georgetown, and Florence Counties South Carolina.

In general, crop conditions have been favorable, though some allowance must be made for injury to cotton crops, because of the boll weevil and root lice. These conditions have been stimulated by wet weather and cool nights. The cotton mill and cotton-seed mill at Kershaw (Kershaw County) have been operating on a full-time basis. Lynchburg (Lee County) reports too much rain and injury to cotton crops. Kingstree (Williamsburg County) also complains of boll weevil injury to cotton. On the other hand, the tobacco crop in Florence County seems to have been injured somewhat by drought.

In general, banks in the regions visited charge 6 percent on loans and pay $2\frac{1}{2}$ percent on deposits.

Atlanta

Southeast Georgia.

Our representative visited a number of banks in a territory devoted principally to the raising of cotton, corn, and other agricultural products. Prospects appear to be excellent. The condition of the corn crop was reported as unusually good.

At the banks visited deposits were uniformly less than last year. The demand for loans was reported generally as satisfactory. No complaints were made concerning the Federal Reserve System, nor was there any criticism of the activities of Governmental loan agencies.

Louisiana

Visits were made to a number of banks located on the west side of the Mississippi River, between New Orleans and Donaldsonville. This section is a rich agricultural area, devoted principally to growing sugar cane, corn, Irish potatoes and truck crops. The bankers interviewed were in good spirits and appeared optimistic. Their institutions are enjoying a good volume of business, with deposits, loans and earnings comparing favorably with the same period of 1937. Collections are reported as being unusually good. The bankers in this territory were to a remarkable extent free from any disposition to complain about conditions over which they have no control.

Visits were made also to a group of banks located on the east side of the River, between New Orleans and Baton Rouge. The banks in this section reported that their volume of loans is somewhat less than it was at the same time in 1937, although earnings are somewhat better, due to revenue now being derived from service charges which were not in effect during the first six months of last year. The handling of finance paper of local dealers in automobiles and household equipment has been a source of considerable profit to the banks. A number of sugar refineries are located in this section, which give employment to large numbers of people, and whose payrolls serve to stimulate trade. The banks in Baton Rouge are reported to be enjoying excellent business. Retail trade is holding up remarkably well and the general recession in business has scarcely been felt.

No complaints were made concerning the services rendered by the New Orleans Branch. At the nonmember banks visited our representative was advised that the collection of exchange on incoming cash letters was an important source of revenue, with the result that membership in the System could not be seriously considered.

Mississippi Gulf Coast

Banks located on the Mississippi Gulf Coast are experiencing a seasonal decline in business. The plants that can oysters and shrimp have discontinued operations until August. The resort hotels and rooming houses are reported to be enjoying a very good tourist season.

Deposits and loans show a seasonal decline. Earnings, however, compare favorably with last year.

Chicago

During June calls were made on 186 member and 74 nonmember banks, principally in Indiana, Iowa, and Michigan.

The general feeling, particularly among rural banks, is optimistic, as the prospects are favorable for big yields in wheat, oats, and hay, although some doubt is expressed regarding the price. While in some sections the corn crop is backward due to excessive rains, generally it is well advanced and clear of weeds.

In most communities retail trade is reported as having been satisfactory, but having shown a falling off during the month of June. Other reports indicate a reduction of from 10 to 25 percent compared with 1937.

Demand for credit continues light. Most banks report no F.H.A. loans, although at some points, such as Fort Wayne and South Bend, Indiana, there is considerable activity in this type of loan.

Some residential construction is being undertaken, but practically no large building activity is reported.

No improvement is indicated in the employment or relief situation. In one industrial town, one out of every three people formerly employed is either on direct or work relief.

Nonmember banks visited with few exceptions express a friendly feeling toward the System. Some evidence interest in membership, and while various reasons are offered for not joining, one important one given by banks otherwise eligible is the fact that they now have branches or anticipate establishing them.

St. Louis

Conversations with business men and bankers during the month of June indicated no decided change in mercantile lines. The trend toward reduction in stocks of goods continues, there being an increase in special retail sales. These have resulted in maintenance of volume of sales, although profits as well as inventories have been sharply reduced.

Communities most adversely affected are those in the industrial class, with no increase in employment noted. Coal mining suffered a considerable decline in production during the past year, resulting in reduced earnings and employment. No disposition is manifested by manufacturing lines to operate beyond the filling of actual orders received.

A member bank officer continues to be quite irritated about the numerous non-par items which originate in the immediate vicinity of his town, and made the statement that some means should be found to compel state banks that are F.D.I.C. members to remit at par.

Officers of a member bank are again considering placing funds on deposit with other banks in interest bearing c/d's, which was the practice adopted a few years ago, but was abandoned when they thought investment opportunities presented themselves. The bonds purchased, however, now show a depreciation.

The cashier of a nonmember bank reported that profits for the first six months of this year were the best in a number of years due primarily to the making of loans which they had previously declined or did not look for. Our officer was shown the bank's files on several real estate loans which appeared to be made on a conservative basis.

Reference to comments in the press regarding the controversy between supervisory agencies with respect to bank examinations was made by a nonmember banker who expressed the view that he had declined making some loans for fear of comments on the part of examiners. A nonmember cashier stated that at the time the bank was licensed for membership in the F.D. I.C., the examiner compelled him to collect a number of loans aggregating a substantial amount, which loans were quite desirable. They had run for some length of time but when demand was made the makers had no trouble in getting the money elsewhere. They were 6 percent loans and would be of great value to the bank now.

Conversation with a nonmember cashier disclosed the fact that there was more demand for loans than he could supply, and that he had to turn over some very fine feeder loans to the Production Credit Corporation. When inquiry was made as to the reason why the bank did not rediscount temporarily to take care of such loans he stated that the examiners criticized him for showing any bills payable. It was quite apparent that this cashier does not want to borrow money and is disposed to charge the responsibility for not taking these loans to the bank examiners.

Minneapolis

Northern Half of Montana

The majority of the banks visited had most of their excess funds invested in United States Government bonds and high grade municipals; consequently, the matter of depreciation was not mentioned except at two points. Through the advice of a bond service company, one bank disposed of its government bonds two years ago and purchased a considerable amount of railroad bonds, with the result that after the slump in those bonds the bank shows a heavy bond depreciation at the present time.

A state member bank at another point, which opened for business in 1936 with a capital of \$25,000, now shows a depreciation of \$9,000 in its bond list. Its managing officer was formerly a national bank examiner and induced several businessmen to provide capital for a bank.

The price of government bonds is naturally the main topic of conversation. Although the bankers are, of course, greatly elated over the increase in the price of government bonds, nevertheless they feel that some day in the not too distant future, they will go the other direction. A number of bankers stated they felt the price of United States Government bonds was at, or near, its peak, and were frank in admitting they thought it would be a good policy on their part to take their profit at once even though they had to "sit on the cash". Some of the bankers felt that their investment in government bonds was part of their investment program, and, therefore, ignored any fluctuations in bond prices. These same bankers usually keep their bonds until maturity and subscribe to new issues.

The exchange situation in Montana is more or less unimportant except in the northeastern section of Montana, where no crops have been raised for years and where exchange is more or less vital to the bank's existence. One bank in the northeastern section of the state showed \$8,000 of net profit in 1937, and admitted that \$7,300 of that amount came from exchange. However, a number of bankers (some of whom resided quite a distance from this particular point) said that although the bank in question was following unfair practices in connection with exchange charges, and expressed the opinion that it was gouging its customers, nevertheless if they did not make these excessive charges, the bank could not exist. Naturally the business houses in that town felt they had to take it and like it.

East Central South Dakota

Very few of the smaller member banks route their cash collection items through us. Most of the bankers interviewed stated that they sent their items to their correspondents in order to avoid the additional clerical work required when sending them to us. Some of them said, "Why should we bother to sort our items when our correspondent is willing to do it for us?"

It became evident during the interviews that "immediate credit" was important under present circumstances only because of greater ease in making reconcilements at the end of each month.

The pressing need of some of the country banks for additional earnings was sharply indicated by the avidity with which some of them stepped out of what might be termed a "purely banking" field. So many bankers were devoting every spare moment of the day and evening to writing hail insurance that it was quite difficult for them to find time for even a brief visit. One banker asked to be excused from a five o'clock appointment Friday afternoon and said he would rather make the appointment for Sunday morning. Another banker had set a quota of \$50 per day from hail commissions and when he was invited to dinner shortly after six o'clock he begged off, saying that he still had to make \$19 in hail commissions that evening.

While both float and exchange charges are usual in this section, a few bankers have established reputations for making excessive exchange charges and other bankers are showing some concern over the complaints being made. One small town banker has doubled his income from exchange in the last few years by convincing his customers that it is to their advantage to use checks in place of currency. His campaign has been so successful that he now carries less than half as much currency in his vault as he did just a few years ago. One of the bankers with a rather large bond account reported earnings of \$27,000 from trading and selling municipals last year and 1938 earnings from the same source at only a little lower rate.

On the whole, bankers reported that earnings were as good as, or better than, in the first five and one-half months last year. A few stated that their earnings were well above the 1937 level and expected them to continue to show an increase.

Southern Montana

With almost no exception loans and discounts are higher than a year ago. There are very few real estate loans, but on those held, the bank receives 5% to 6%. The great bulk of loans are on livestock, sheep, and beets. This is a borrowing season. Beet growers whose allotment checks have been delayed have borrowed heavily to pay for hand labor. In most of the banks there exists a condition where loans are up in about the same percentage that deposits are down. In a few banks both loans and deposits are definitely up, and in one or two banks loans and deposits are down. Agricultural paper draws between 8% and 10%, 8% being the lowest rate charged by practically all of the banks, with exception granted to large borrowers at 7%.

Some of the larger banks are working into personal loan business with rates from 8% to 11%, or at a slightly lower rate on a discount basis.

The Montana banks carry very little automobile paper.

Kansas City

During the month of June, representatives of this bank made calls on numerous banks--especially in Colorado and Wyoming--and attended a number of important bankers' conventions.

In general the agricultural situation is the best in years. With the exception of New Mexico, the heavy rains continued throughout June. In some parts of the District excessive moisture damaged wheat and delayed corn. At the beginning of the month it appeared that Kansas might raise 200 million bushels of wheat. Harvest, however, has shown that the heavy freeze in early April did more damage than was anticipated. Excessive rains, rust damage, and hail will also reduce materially the Kansas crop.

For a time there was much anxiety about Nebraska wheat because of the danger of rust. But latest reports are that, while the early June estimate of more than 70 million bushels was too high, an unusually good crop will be harvested.

Both Colorado and Wyoming have good lamb crops and producers are hoping for $5\frac{1}{2}$ to 6 cents a pound. The ranges of Wyoming are in the best condition in years and cattlemen are talking of 8 or 9 cents a pound for fat steers off the grass, although such prices are regarded as somewhat optimistic. With present feed supplies Wyoming is short of cattle but this is regarded as not unfavorable in that it will give the ranges an opportunity to recuperate from the preceding years of drought.

The sugar-beet crop of Colorado is in good condition although there has been considerable hail damage in the northeastern part of the state. Colorado bankers report a tendency of loans to expand and it appears there may be some rediscounting. Conditions in New Mexico are least favorable. In sharp contrast to the rest of the District, this state lacks moisture and large areas in the northeastern part are badly infested with grasshoppers.

In northeast Nebraska where a fair corn crop was produced last year bankers report an increase in the number of cattle and hogs on the farm. Deposits are said to be on the increase and the demand for loans is a little more active. About half of the farmers in that region are cooperating with the Government crop program, but there is much criticism of the severity of the acreage reduction feature. Farmers who are cooperating are doing so more as a hedge against lower prices than from a desire to cooperate.

The question of personal loans is receiving growing attention. In the same bank there is often a sharp difference of opinion among officers, but there appears to be an increasing number of bankers who are convinced that times have changed and that banks must cultivate this type of business. In some cases banks are sending officers to the larger city banks to study their experience with these loans.

In regard to membership in the Federal Reserve System, it appears that capital requirements are a deterrent to some banks. Few banks are willing to increase their capital under present conditions in order to become members. Some nonmember banks also express the opinion that member banks in the not too distant future may be required to purchase Government securities on a quota basis.

There is little sentiment among banks for any relaxation in bank-examination standards. Banks are sympathetic with the endeavor of the Government to loosen credit and make capital available to worthy borrowers. But at the same time they take the position that the banker is the best judge of credit risks and that every incentive now urges him to make sound

loans. The proposal to permit banks to deal in local investments even though these securities are not listed on well-known exchanges is commented on favorably. The feeling is expressed that the classification of so-called slow paper is a matter of opinion and that some such classification has much to be said for it as it gives the banker the outside judgment of the bank examiner.

Sentiment in this region is better, but operating results are little changed. Retail sales in recent weeks have been erratic due probably to weather conditions. Wholesale and retail inventories are down sharply from a year ago. Rather drastic proration agreements are holding down the production of oil, a condition that is limiting the capacity of this industry to consume steel. The outlook for construction is, on balance, probably better.

Dallas

Northwest Texas

Fifteen member banks and three nonmembers were visited in the tier of ten counties extending along the northern boundary of Texas and into the Texas Panhandle. Cotton, wheat, cattle and oil are the important economic mainstays of this region.

Suffering from the most destructive invasion of grasshoppers that this section of Texas has experienced in thirty-seven years, agricultural producers are faced with the double task of saving their own crops (already curtailed by voluntary acreage reduction under the government's farm program for 1938) and of preventing the grasshoppers from migrating to other sections of the State which have not yet been attacked. Poisoning on a huge scale has been resorted to with fair success as a means of halting their depredations in this area, and in this war of extermination the farmers have had the benefit of liberal assistance both from local banks and from the federal government.

Complaints were heard that the grasshoppers this year are attacking all crops with equal voracity - including wheat and other grains as well as cotton and row crops. In many wheat fields the ground is strewn with fully matured wheat heads, mowed off, as with a knife.

The demand for agricultural credit in the section covered by this report is about the same as, or slightly greater than, a year ago. Calamities like floods, storms and insect infestations usually augment the demand, and these influences may account for the sustained flow of loans in this territory where otherwise such factors as reduced plantings, government payments and the like would be expected to cause a diminution in the need for bank credit.

Investment policies of the banks in the visited area showed wide divergences, ranging from the policy of purchasing no investment securities

whatever to that of employing equal amounts of funds in bonds and loans. Generally, however, the smaller banks carry only nominal investments in securities, finding it necessary to keep employable funds loaned out in order to maintain their earnings at the required levels. As a group the banks covered by this report show a substantial appreciation in their bond accounts. A few of them are selling a portion of their holdings, partly for profit-taking purposes but principally in order to switch from long maturities.

Fewer complaints than usual were heard in regard to bank earnings. New fields of revenue are being developed in some communities, such as automobile loans and other types of installment paper, FHA title II loans, tractor notes, etc. In other cases the demand for agricultural credit has increased, and not a few banks were found to be carrying large investments in cotton producers' notes eligible for purchase by the Commodity Credit Corporation.

North Louisiana

Banks report that they are reluctant to make further investments at this time in high-priced government bonds. There is a general tendency to switch from the long-term issues to the shorter maturities, due to a feeling that current market prices of the former are too high to justify their retention.

Southwest Texas

The only complaint heard was a mild one in regard to reserve requirements. Considerable interest was manifested in the revised examination procedure recently adopted by the various supervisory agencies - particularly with respect to the treatment of assets heretofore classified as slow. Every banker who discussed the subject felt that quality should be the determining factor in appraising and classifying loans.

A heavy per-acre yield of cotton is in prospect. Weather conditions have been ideal for the growth of the plant and parasitic attacks have been light. Producers are uncertain and confused as to the method to be used by the government in collecting penalties for excess production. They are also uninformed and apprehensive as to the government's plan for making loans against the new cotton crop.

San Francisco

Puyallup Valley, Washington

Conditions in the Puyallup Valley, which is an area devoted principally to berry raising, small fruits, hops, and dairying, are not entirely satisfactory. It was reported that, while a normal crop of cherries, raspberries, and blackberries is anticipated, prices are expected

to be poor owing to the fact that there was a large carry-over of canned berries from last season. A normal crop of hops is expected in the valley, but owing to the unsatisfactory prices offered for contracts many of the growers, hoping that later in the season better prices may obtain, have refused to sign up. The dairymen are somewhat discouraged by the low prices for butter fat. A few industries which are operating at Puyallup and Sumner, such as a large yeast plant, box factories, and small mills, are in a satisfactory condition, and their payrolls have been steady, adding to the prosperity of these communities.

Snoqualmie Valley, Washington

Conditions in the Snoqualmie Valley, which includes Duvall, Carnation, and Issaquah, are not entirely satisfactory. Logging operations are continuing on a small scale. Most of the timber in the valley has been logged, and payrolls have consequently been materially reduced. Otherwise, dairying is the principal industry and is at present in an unsatisfactory condition owing to the poor price of butter fat.

Utah and Southern Idaho

General business conditions in the area visited are less satisfactory than they were one year ago, particularly due to lower prices prevailing for agricultural crops in general (except sugar beets and green peas), wool, butter fat, and eggs, and to the outlook for definitely lower prices for lambs from the ranges next fall. Metal mining is relatively inactive, with some of the important producers completely shut down, and in the coal mining region of Central Utah the activity is estimated at 80% of the usual activity at this season of the year.

Retail sales are said to have been showing a material decline recently over the same period one year ago, with the exception of sales of foodstuffs, the volume of which, though under last year, has been fairly well maintained.

The outlook for agricultural production is very favorable for maximum yields. The growing season has been favorable for satisfactory growth, with above average frequency of rainfall, and supplies of water in storage for irrigation purposes are adequate, in fact better than for some years. The production of berries and soft fruits has been above normal, and the outlook is for large crops of the later maturing fruits, also.

Livestock ranges are in excellent condition, and there has been a fairly substantial increase in the number of cattle, both dairy and range, during the past two years, largely in refilling herds depleted during the preceding drouth period. Last estimates are that an average lamb crop will be marketed next fall, and some beef, carried over from last winter's feed lots, will be marketed early commencing in the month of August.

BANK RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

JUNE, 1938

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	44	10	54	3	*	None	—
New York	146	69	215	10	3,560	3	955
Philadelphia	82	26	108	1	1,500	1	50
Cleveland	62	12	74	8	3,054#	1	39
Richmond	33	33	66	6	1,675	2	515
Atlanta	23	16	39	None	—	None	—
Chicago	186	74	260	4	4,974	1	27
St. Louis	97	120	217	5	2,025	3	1,400
Minneapolis	125	146	271	8	3,715	1	500
Kansas City	27	17	44	5	1,309	1	1,000
Dallas	87	13	100	2	260	None	—
San Francisco	36	18	54	20	3,074	None	—

*Attendance not reported

#Attendance at one not reported

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 20, 1938.

SUBJECT: Holidays during August, 1938.

Dear Sir:

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

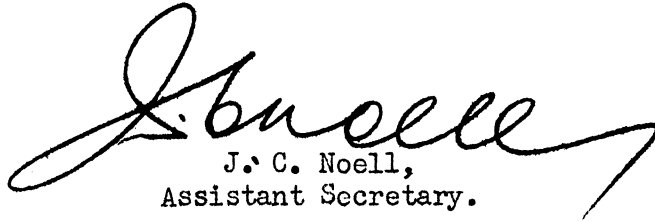
Monday, August 1	Denver	Colorado Day
Tuesday, August 2	St. Louis Kansas City	Primary Election Day
Thursday, August 4	Nashville Memphis	Primary Election Day
Friday, August 12	Havana Agency	Anniversary of Fall of Machado Government
Saturday, August 27	Dallas El Paso Houston San Antonio	Second Primary Election Day
Tuesday, August 30	New Orleans	Anniversary of Birth of Huey P. Long
	San Francisco Los Angeles	Primary Election Day

On the dates given the offices affected will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices concerned on each of the holidays with your credits for the following business day. No debits covering shipments of Federal

Reserve notes for account of the head offices mentioned should be included in your note clearings of August 2, 4, 27 or 30.

Please notify branches.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Monday, July 25, 1938.

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

Industrial activity showed little change in June and increased in the first three weeks of July, although there is usually a considerable decline at this season. Prices of most staple commodities advanced sharply in the latter part of June and early July and there were substantial increases in prices of stocks and lower grade bonds.

Production

Volume of industrial production, as measured by the Board's seasonally adjusted index, was at 77 percent of the 1923-1925 average in June as compared with 76 in May and an average of 79 in the first quarter of the year. Available data indicate that in July the index will show a considerable rise.

In June activity in the textile industry increased, reflecting chiefly a further rise at woolen mills. Output at cotton and silk mills, which usually declines at this season, showed little change. Shoe production declined, following a considerable increase earlier in the year.

Automobile output decreased further in June; sales of new cars continued in excess of production, however, and stocks were further

reduced. Steel production declined seasonally in June, and lumber production showed little change, although some increase is usual. Output of plate glass rose sharply from an exceptionally low level. Coal production remained in small volume in June, while output of crude petroleum, which had been sharply reduced in May, declined somewhat further.

In the first three weeks of July activity at steel mills increased, although there is usually a decline in that period, and in the third week of the month ingot production was estimated at 36 percent of capacity as compared with an average rate of 28 percent in June. Crude petroleum output also rose sharply, reflecting chiefly a return to production on a six-day week basis in Texas. Automobile production declined seasonally.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed a decline in June, following a considerable increase in May. Changes in both months reflected chiefly fluctuations in awards for publicly-financed construction. Awards for private residential building were maintained in June at about the same daily rate as in May, although there is usually some decline at this season, and were in slightly larger volume than a year ago. Other private construction work remained at recent low levels.

Employment

Factory employment and payrolls decreased further from the middle of May to the middle of June. Employment in the automobile, steel, machinery, and clothing industries continued to decline, while at woolen mills there was an increase and in most other manufacturing lines changes were small. In trade employment was reduced, while in other non-manufacturing industries changes in the number employed were largely seasonal.

Agriculture

A total wheat crop of 967,000,000 bushels was indicated by July 1 conditions, according to the Department of Agriculture. A crop of this size would be considerably larger than average and a Government program was announced for loans at close to current market prices. Cotton acreage on July 1 was estimated at 26,900,000 acres as compared with 34,500,000 acres last year when, with exceptionally high yield per acre, a record crop was harvested. Production estimates for most other major crops were slightly under the large harvests of last season.

Distribution

Distribution of commodities to consumers was maintained in June at about the May level, although a decline is usual at this season. Sales at department and variety stores showed little change and mail order sales increased. In the first half of July department store sales decreased less than seasonally.

Freight-car loadings showed little change from May to June and were slightly above the low level of April.

Commodity prices

Prices of industrial materials, particularly rubber, hides, non-ferrous metals, and steel scrap, showed advances from the middle of June to the third week of July, and there were also increases in prices of livestock and products. Wheat prices declined, following a rise early in June. Prices of iron and steel were reduced and there were also declines in some other industrial products.

Bank credit

Excess reserves of member banks increased substantially in June and

the first half of July, rising to above \$3,000,000,000, as compared with \$1,730,000,000 just prior to the reduction in reserve requirements the middle of April. The largest gain in excess reserves occurred at city banks through the retirement of Treasury bills and the continued growth of bankers' balances.

Total loans and investments of reporting member banks in 101 leading cities, which had increased sharply in the first week of June, declined during the remainder of June, reflecting largely redemption of Treasury bills held by New York City banks and a decrease in loans to security brokers and dealers. During the first three weeks of July total loans and investments at reporting banks showed little net change.

Money rates

Rates on Treasury bills and notes were slightly firmer in July but continued at exceedingly low levels. Yields on Treasury bonds showed little change.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-283

39

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 25, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NOZTYS - Treasury Bills to
be dated July 27, 1938, and
to mature October 26, 1938.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-284

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1938.

SUBJECT: Audit of Incomplete Federal Reserve notes.

Dear Sir:

For your information there is inclosed a recapitulation of an audit submitted to the Secretary of the Treasury by Mr. H. M. Pearson, Acting Chief, Division of Public Debt Accounts and Audits, showing the stock of incomplete face printed Federal Reserve notes, Series of 1928 and Series of 1934 combined, and of uniform backs allocated to Federal Reserve notes, on hand at the Bureau of Engraving and Printing at Washington as at the close of business June 30, 1938.

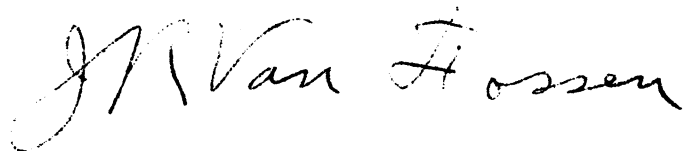
In his letter transmitting the report to the Secretary of the Treasury, Mr. Pearson stated that: "The audit extended from June 28 to July 6, 1938, inclusive, and consisted of a piece count of the entire stock of faces, Series 1934, and a package count of the uniform backs allocated to Federal Reserve notes. All stocks of Federal Reserve notes, Series of 1928, with the exception of those retained by the Bureau for specimen purposes were piece counted and placed under the Auditor's seal prior to the audit. An inspection was made of the seals on the various bins containing these stocks and the seals were found to be intact. Due to the inactivity of \$5 Federal Reserve notes it was deemed advisable to place the stocks of this denomination under seal. Accordingly, after a piece count was made,

- 2 -

all stocks of \$5 Federal Reserve notes, Series of 1934, with the exception of those retained by the Bureau for specimen purposes, were placed under seal in locked compartments in the Examining and Surface Printing Division's vaults. In view of the fact that a recent piece count has been made by this office of the entire stock of each denomination of uniform backs on hand in the Bureau, a package count and an inspection for denominations of the uniform backs allocated to Federal Reserve notes was deemed sufficient at this time. The total sheets of Federal Reserve notes faces and backs, were found to be in excess of the required reserve of 4,250,000 sheets, as authorized in the letter of the Governor of the Federal Reserve Board to the Undersecretary of the Treasury, dated December 2, 1929."

Of the total of 3,093,594 sheets of faces covered by the audit, 682,548 sheets are of the Series of 1928.

Very truly yours,



J. R. Van Fossen, Asst. Chief,
Division of Bank Operations.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

RECAPITULATION

FEDERAL RESERVE NOTES, SERIES OF 1928 AND SERIES OF 1934, AND UNIFORM
BACKS ALLOCATED TO FEDERAL RESERVE NOTES, SHEETS OF 12 SUBJECTS EACH

R-284a

AS AT THE CLOSE OF BUSINESS JUNE 30, 1938

Federal Reserve Bank	\$5	\$10	\$20	\$50	\$100	\$500	\$1,000	\$5,000	\$10,000	TOTAL
Faces:										
Boston	81,502	147,649-2/3	41,911-2/3	11,949-2/3	14,386-1/3	1,735	493	65	74	299,766-1/3
New York	144,966-2/3	245,620	168,929-2/3	44,035-1/3	42,968-2/3	501	695	51	41	647,808-1/3
Philadelphia	76,633-1/3	104,118	61,333-1/3	49,039-1/3	19,207-1/3	479	200	--	--	311,010-1/3
Cleveland	84,678	75,501	81,886-1/3	26,172-2/3	13,139-1/3	130	352	75	50	281,984-1/3
Richmond	42,405-1/3	43,366-2/3	54,866-2/3	23,770-2/3	14,504	570	454	122	127	180,186-1/3
Atlanta	31,675	37,433-1/3	31,599	7,387-1/3	8,972-1/3	600	402	124	80	118,273
Chicago	128,067-2/3	166,294	130,625	51,157-2/3	47,061	2,924	2,202	169	122	528,622-1/3
St. Louis	57,342-2/3	50,140	22,533-1/3	6,932-1/3	6,105-2/3	874	530	90	49	144,597
Minneapolis	26,133-1/3	37,200	23,533-1/3	5,521	6,699-1/3	445	168	--	--	99,700
Kansas City	36,407-1/3	24,966-2/3	20,866-2/3	5,655-1/3	9,334-1/3	552	402	110	61	98,355-1/3
Dallas	27,166-2/3	61,240-1/3	37,566-1/3	3,700	3,929-1/3	460	450	99	52	134,663-2/3
San Francisco	35,100	66,700	118,964-2/3	11,141	15,361-1/3	600	526	140	94	248,627
Total Faces	772,078	1,060,229-2/3	794,616	246,462-1/3	201,669	9,870	6,874	1,045	750	3,093,594
Backs:										
Uniform Backs allocated to the various denominations of Federal Reserve Notes	568,500	656,500	630,500	149,000	120,500	--	--	--	--	2,125,000
Total Faces and Backs	1,340,578	1,716,729-2/3	1,425,116	395,462-1/3	322,169	9,870	6,874	1,045	750	5,218,594

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM
DIVISION OF BANK OPERATIONS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-285
43

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 30, 1938.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NOZUAN - Treasury Bills to be
dated August 3, 1938, and to
mature November 2, 1938.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

44

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

R-286

August 5, 1938.

Dear Sir:

The revision of the form of report of examination which has been under consideration, as you know, for some time, has been completed. Changes in certain schedules in order to conform to the recent agreement regarding examination procedure have been incorporated in the revised form. In the interest of uniformity throughout the System and to reduce the cost of supplies, it has been decided to have the forms printed in Washington and distributed to the Reserve banks. It is expected that the supplies will be in your hands before the end of the month, and it is contemplated that the new form will be used beginning September 1.

Very truly yours,

Leo H. Paulger
Leo H. Paulger,
Chief, Division of Examinations.

TO ALL VICE PRESIDENTS IN CHARGE OF EXAMINATIONS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-287
45

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 6, 1938.

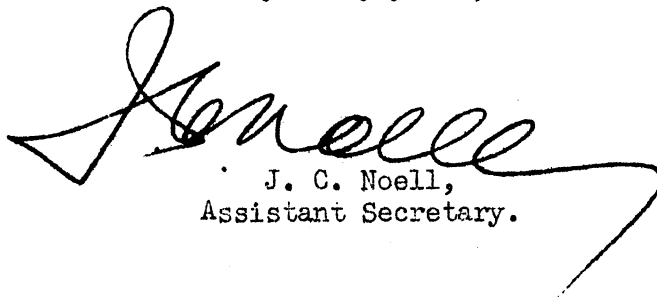
SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NOZUER - Treasury Bills to be
dated August 10, 1938, and to
mature November 9, 1938.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

46

R-288

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1938.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes from July 1 to July 28, 1938.

Very truly yours,

Josephine E. Lally.

Josephine E. Lally,
Deputy Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-288-a

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

Federal Reserve Notes, Series 1934.

	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>\$500</u>	<u>\$1000</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston	45,000	12,000	8,000	-	-	-	65,000	\$ 5,980.00
New York	84,000	21,000	27,000	41,000	-	-	173,000	15,916.00
Philadelphia	51,000	21,000	20,000	7,000	-	-	99,000	9,108.00
Cleveland	51,000	18,000	-	-	-	-	69,000	6,348.00
Richmond	32,000	23,000	14,000	5,000	-	-	74,000	6,808.00
Atlanta	25,000	7,000	2,000	3,000	-	-	37,000	3,404.00
Chicago	53,000	35,000	34,000	34,000	1,600	1,250	158,850	14,614.20
St. Louis	34,000	8,000	4,000	5,000	-	-	51,000	4,692.00
Minneapolis	20,000	7,000	1,000	1,000	-	-	29,000	2,668.00
Kansas City	25,000	9,000	1,000	5,000	-	-	40,000	3,680.00
Dallas	22,000	7,000	-	3,000	-	-	32,000	2,944.00
San Francisco	<u>51,000</u>	<u>17,000</u>	<u>3,000</u>	<u>4,000</u>	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>6,900.00</u>
	<u>493,000</u>	<u>185,000</u>	<u>114,000</u>	<u>108,000</u>	<u>1,600</u>	<u>1,250</u>	<u>902,850</u>	<u>\$83,062.20</u>

902,850 sheets, @ \$92.00 per M \$83,062.20



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-289

48

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1938.

SUBJECT: Discontinuance of Havana Agency

Dear Sir:

There is inclosed herewith a copy of a resolution adopted by the Board of Governors of the Federal Reserve System authorizing and directing the discontinuance of the operations of the Havana agency of the Federal Reserve Bank of Atlanta as soon as practicable and in no event later than December 31, 1938. This is submitted to you for your confidential information, since any statement to the press that may be necessary regarding the matter will be made by the Federal Reserve Bank of Atlanta.

Copies of correspondence with the Department of State regarding this matter are also inclosed for your confidential information.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT ATLANTA

RESOLUTION ADOPTED BY THE BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM DIRECTING THE DISCONTINUANCE
OF THE HAVANA AGENCY OF THE FEDERAL RESERVE
BANK OF ATLANTA

August 3, 1938.

WHEREAS the Federal Reserve Bank of Atlanta has maintained and operated an agency in Havana, Cuba, for a number of years past and is now operating the said agency pursuant to a resolution of the Federal Reserve Board (now the Board of Governors of the Federal Reserve System) adopted January 27, 1927, as modified by subsequent action of the said Board, and under the terms of an agreement between the Federal Reserve Bank of Atlanta and the other eleven Federal Reserve banks which became effective on June 1, 1935; and

WHEREAS the Board of Governors of the Federal Reserve System, in the light of the volume of business, operating expenses, and other factors involved in the maintenance of such agency, has determined that the necessity and desirability for the continuance of the agency no longer exists; and

WHEREAS the board of directors of the Federal Reserve Bank of Atlanta adopted resolutions under dates of June 8, 1934, February 14, 1936, and September 11, 1936, requesting that the bank be authorized to discontinue the operation of the agency at Havana, Cuba; and

WHEREAS it is the opinion of the Board of Governors that the operation of such agency should be discontinued and that the request of the board of directors of the Federal Reserve Bank of Atlanta should be granted;

NOW, THEREFORE, BE IT RESOLVED:

(1) That the Federal Reserve Bank of Atlanta be and said bank hereby is authorized and directed to discontinue the maintenance and operation of the said agency at Havana, Cuba, as soon as practicable and in no event later than the close of business December 31, 1938, except to the extent necessary to wind up and liquidate any business or commitments theretofore acquired or entered into;

(2) Upon the discontinuance of the operation of the said agency pursuant to the terms of this resolution, the Federal

Reserve Bank of Atlanta shall no longer be authorized to exercise through the said agency any of the powers which it has heretofore been authorized to exercise by the Board of Governors of the Federal Reserve System, except that it shall have and retain all such powers as may be necessary and appropriate to wind up and liquidate the business and affairs of the said agency as provided in the preceding paragraph of this resolution;

(3) That the Federal Reserve Bank of Atlanta is directed to proceed diligently with the liquidation and winding up of the outstanding business and commitments of the said agency to the end that the affairs of the said agency may be finally concluded at the earliest practicable date.

DEPARTMENT OF STATE
Washington

July 30, 1938.

My dear Mr. Morrill:

I have received your recent telephone message indicating that the Board is again considering the closing of the Habana agency of the Federal Reserve Bank of Atlanta.

While I understand the Board's attitude in this connection and am therefore somewhat reluctant to suggest the further maintenance of the agency, nevertheless, it seems to me that from the point of view of our general relations with Cuba it might be desirable again to postpone withdrawal. As you are aware, the Cuban Government has been contemplating a rather extensive modification of its banking structure in relation to which it sent an official mission to the United States in the summer of 1937. These officials drafted with the assistance of experts of the Treasury Department and other agencies of this Government a number of important measures on government finance and agricultural credit which are now receiving study by the Cuban Government. Should these bills be enacted, it is not improbable that the Cuban Government may seek further assistance from our Treasury Department in setting up the new machinery, and pending the time when that machinery is functioning, it seems to me that the Board might well consider whether the continued presence of the Habana agency would not be useful and desirable.

Cuba as you know is one of our most important foreign customers. The investments of American citizens there total approximately

seven hundred million dollars, and the commercial interchange, which is facilitated because of the presence of an Agency of the Federal Reserve Bank in the Cuban capital, runs into many millions of dollars per year. I feel sure that any legitimate arrangement which assists the citizens of the United States to maintain the position of American business in the island should not be discouraged, and it is accordingly my belief that the maintenance of the present Habana agency, at least until the proposed changes in the Cuban financial structure have been perfected, would be in harmony with the policy of cooperation which this Government has followed in respect to its special relationship with Cuba, since the establishment of that republic.

Having all of the foregoing circumstances in mind, I venture to express the hope that the closing of the Habana agency may be deferred for the time being.

Sincerely yours,

(Signed) Sumner Welles

Under Secretary.

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

DEPARTMENT OF STATE
Washington

August 2, 1938.

Dear Marriner:

I enclose a copy of a letter which I wrote on July 30, 1938 to Mr. Chester Morrill with regard to the consideration that the Board has been giving to the closing of the Habana agency of the Federal Reserve Bank of Atlanta. This letter was delivered yesterday to Mr. Morrill by Mr. Duggan of this Department.

As a result of the considerations set forth by Mr. Morrill on that occasion, I desire to state my deep appreciation of the generous attitude that the Board has taken many times in the past by continuing the Habana agency of the Federal Reserve Bank of Atlanta. Although I had been aware that the maintenance of the agency was an expense to the Federal Reserve Bank of Atlanta, I admit to having been surprised to learn the extent of that cost and likewise the unimportant role which the Bank has been playing in facilitating commercial interchange.

Nevertheless, from this Department's point of view, I continue to believe that it would be desirable that the agency be continued until such time as the Cuban Government has made the proposed changes in its financial structure which were elaborated by officials of the Cuban Government in consultation with officers of this Government. It may be that as a result of Cuban action there will be even less

of a role for the agency to perform than at present; but the contrary might be true, in which case it would be far easier for the United States to lend its effective cooperation if the agency were still to be operating.

Moreover, although it is unquestionably true that conditions in Cuba today are more stable than in recent years, public opinion in Cuba is highly sensitive to action affecting Cuba taken by this Government. There is a possibility that the termination of the agency at the present moment might give rise to unfortunate speculation and misunderstanding.

I realize, of course, that the Board cannot be expected to continue indefinitely the agency if it does not perform a more vital and useful function than at present. It seems probable that the Cuban Congress at its next session will act upon the financial measures designed to improve the banking and currency structure, and I strongly hope that the Board will reconsider its decision to close the agency and will permit it to continue until the Congress has acted. If no action has been taken by the Congress by December 31, 1939, I would agree that the desirability of continuing the agency in anticipation of action by the Congress at a later date would be very questionable.

Sincerely yours,

(Signed) Sumner Welles

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

R-289-d

August 6, 1938.

Honorable Sumner Welles,
Under Secretary of State,
Washington, D. C.

My dear Mr. Welles:

This refers to your letter of July 30, 1938, and to your letter of August 2, 1938, to Chairman Eccles, with regard to the advisability of the discontinuance of the agency of the Federal Reserve Bank of Atlanta in Havana, Cuba. Careful thought has been given by the Board to the various considerations which are mentioned in these letters and the subject has been reexamined and discussed in the light of the suggestions you have made.

As you know, the discontinuance of the Havana agency of the Federal Reserve Bank of Atlanta is a subject which has been under consideration for several years past. In June, 1934, the board of directors of the Federal Reserve Bank of Atlanta adopted a resolution formally requesting that the bank be permitted to discontinue the Havana agency. This request to the Board of Governors was repeated in a resolution adopted by the board of directors of the Federal Reserve Bank of Atlanta in February, 1936, and again in September, 1936. However, due in large measure to representations of the State Department as to conditions existing in Cuba, the Board has on each occasion deferred the discontinuance of the agency.

The Board has now again reviewed the matter in the light of all the factors involved in the continued operation of the agency, including the fact that the activities of the agency have declined to the point where it performs no important role in financing or maintaining the flow of commerce between this country and Cuba or in the financial structure of the island itself. During the period from January 1 to May 11, 1938, the agency arranged a total of only twenty-two cable transfers and made one currency exchange. The majority of these transactions were very small, fourteen involving less than \$10,000.00 each. During five weeks in this period there were no transactions of any kind. Of the twenty-three transactions only two were with banks whose home offices are in the United States. One of these was the sale of a cable transfer in the amount of \$12,150.00 and the other a currency exchange in the amount of \$8,000.00

This limited volume of transactions resulted in total earnings of only \$1,959.03 during the first six months of this year against total current expenses during the same period of \$16,883.76.

It is apparent therefore that the agency is being operated at a substantial out-of-pocket cost to the Federal Reserve System, and there is no reason to believe that this condition would be changed at any time in the near future.

The contents of your letters with respect to continuing the agency pending the enactment by the Cuban Congress of pending financial measures designed to improve the banking and currency structure of the country have been carefully weighed. However, in view of the statement in your letter to Chairman Eccles that conditions in Cuba today are more stable than in recent years and since the agency is not filling any need which can not be met adequately by other arrangements which it is believed can be made without difficulty, it would seem that the discontinuance of the agency should not have any adverse effect upon the adoption of the proposed improvements in the banking and currency structure of Cuba.

In view of these circumstances, and the requests of the Federal Reserve Bank of Atlanta, the Board of Governors has concluded that further continuance of the Havana agency is not justified and therefore has authorized and directed the Federal Reserve Bank of Atlanta to discontinue the agency. A copy of the resolution adopted by the Board in this connection is inclosed for your information.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-290 57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 10, 1938.

Dear Sir:

Having considered a suggestion that it amend Regulation L so as to permit, in so far as it may under section 8 of the Clayton Act, the continuance for a further period after February 1, 1939, of relationships which were lawfully in existence on the date of the enactment of the Banking Act of 1935, you are advised that the Board sees no reason for extending the time fixed by Congress for the termination of such relationships.

It will be appreciated if you will advise all member banks in your district that may be interested in this matter.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill". The signature is written in dark ink and is positioned above the typed name of the signatory.

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-291

58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

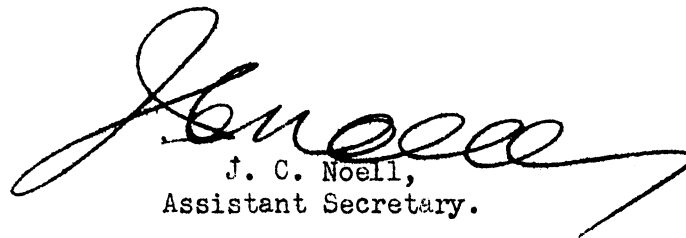
August 12, 1938.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NOZUO - Treasury Bills to be
dated August 17, 1938, and to
mature November 16, 1938.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1938.



Dear Sir:

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

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

Very truly yours,

Josephine E. Lally

Josephine E. Lally,
Deputy Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-292-a

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

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses(1)	Expenses Paid by Banks and Board(2)	Payable to Board of Governors
Boston	33,197	1,387	34,584	\$ 512.27	\$ 306.23	\$ 206.04
New York	87,080	-	87,080	1,289.86	1,041.27	248.59
Philadelphia	28,792	1,397	30,189	447.17	251.48	195.69
Cleveland	41,919	1,419	43,338	641.94	343.78	298.16
Richmond	42,368	1,385	43,753	648.08	259.82	388.26
Atlanta	65,033	1,350	66,383	983.29	314.21	669.08
Chicago	76,742	1,518	78,260	1,159.21	1,253.08	93.87(a)
St. Louis	63,805	1,369	65,174	965.38	253.68	711.70
Minneapolis	27,970	1,351	29,321	434.31	123.55	310.76
Kansas City	62,605	1,379	63,984	947.75	284.03	663.72
Dallas	59,465	1,402	60,867	901.58	279.15	622.43
San Francisco	76,271	1,400	77,671	1,150.49	386.51	763.98
Board of Governors	448,769	-	448,769	6,647.32	11,631.86	-
Total	1,114,016	15,357	1,129,373	16,728.65	16,728.65	5,078.41 93.87(a) <u>4,984.54</u>

(1) Based on cost per word (\$.014812334) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,625.31) and wire rental (\$10,006.55). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

(a) Credit - reimbursable to Chicago.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1938.

Dear Sir:

On Monday, September 5, Labor Day, the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve banks and branches will be closed.

The Board is advised that the following holidays will be observed by Federal Reserve banks and branches during September:

Friday, September 9,	San Francisco Los Angeles	Admission Day in California
Monday, September 12,	Baltimore	Defenders' Day in Maryland

On the dates given the offices concerned will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices mentioned on each of the holidays with your credits for the following business day. No debits covering shipments of Federal Reserve notes for account of the Federal Reserve Bank of San Francisco should be included in your note clearing of September 9.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-294 62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

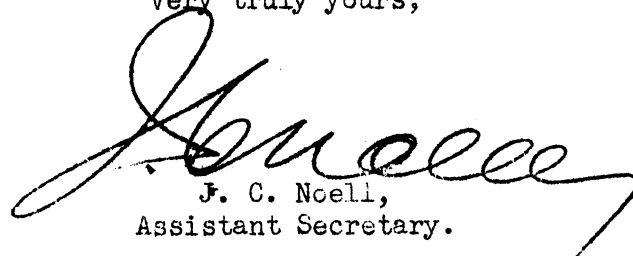
August 19, 1938.

Dear Sir:

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

NOZVAN - Treasury Bills to be dated August 24, 1938, and to mature November 23, 1938.

Very truly yours,


J. C. Noeli,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

63

R-295

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1938.

Dear Sir:

A conference of the heads of the bank examination departments of the Federal reserve banks in Washington is planned for this fall, probably about the second week in October but the exact dates will be announced later. It is suggested that each reserve bank be represented at the conference by the vice president in charge of the bank examination department and the chief examiner or a senior examiner. Other representatives, of course, may also be sent if a reserve bank so desires. It is not planned, however, to hold a conference of trust examiners at this time or to devote much of the time of the conference to questions relating to the examination of trust departments.

The major questions for consideration and discussion, it is anticipated, will relate to the agreement regarding the revised examination procedure as announced by the Secretary of the Treasury, measures necessary to make the agreement effective, and experience with the revised form of report of examination which is to be put into use September 1. It is requested that specific questions regarding such matters and any other suggested topics for discussion at the conference be forwarded by September 17 to Mr. Paulger.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



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	--

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Thursday, August 25, 1938.

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

Industrial activity increased in July, when there is usually a considerable decline, and rose somewhat further in the first three weeks of August.

Production

Volume of industrial production increased from 77 percent of the 1923-1925 average in June to 83 percent in July, according to the Board's index which is adjusted for changes in the number of working days and for usual seasonal variations. Steel output rose sharply, lumber production also increased, and output of cement and glass was maintained. Automobile production declined somewhat further. In the first three weeks of August activity at steel mills was at a rate of around 40 percent of capacity as compared with an average of 35 percent in July, while in the automobile industry there was more than the usual seasonal reduction in output as producers closed plants somewhat earlier than in other recent years to prepare for the shift to new model production.

At textile mills activity in July showed a further rise, marked increases being reported in mill consumption of cotton and wool and in

shipments of rayon yarn. Shoe production also increased substantially, following a decline in June.

Bituminous coal production advanced somewhat in July, and output of crude petroleum was at a much higher rate, reflecting chiefly a return to production on a six-day week basis in Texas. Anthracite production decreased sharply following a considerable volume of output during May and June.

Value of construction contracts awarded in 37 eastern States showed little change from June to July, according to figures of the F. W. Dodge Corporation. Contracts for residential building continued to increase, and there was an increase also in commercial building, reflecting the award of a contract for a large office building. Factory construction remained at a low level and declines were reported in most other types of construction.

Employment

Factory employment and payrolls, which usually decline at this season, increased somewhat from the middle of June to the middle of July. There were substantial increases in the number employed at textile mills, clothing establishments, and shoe factories, and at railroad repair shops there was a slight increase. In the machinery and automobile industries employment declined somewhat further. In non-manufacturing industries the principal changes in employment were a decrease at mines and an increase on the railroads.

Agriculture

A domestic cotton crop of 12,000,000 bales was indicated on August 1, according to the Department of Agriculture. Last season the

crop was 19,000,000 bales and, with world consumption of American cotton about 11,000,000 bales, the carryover increased sharply to 13,500,000 bales. The wheat crop was forecast at 956,000,000 bushels, as compared with 874,000,000 bushels harvested last year and usual domestic consumption of about 670,000,000 bushels. Production estimates for most other major crops were slightly under the large harvests of a year ago. Preliminary estimates by the Department of Agriculture indicate that cash farm income, including Government payments, will total \$7,500,000,000 for the calendar year 1938, a decline of 12 percent from last year, which was the highest since 1929.

Distribution

In July department store sales declined by less than the usual seasonal amount, while sales at variety stores and mail-order houses decreased seasonally. Retail sales of automobiles increased somewhat, although there is ordinarily a decline in July. In the first half of August sales at department stores showed less than the usual seasonal rise.

Freight-car loadings increased from June to July, reflecting chiefly larger shipments of grain, coal, and miscellaneous freight.

Commodity prices

Prices of grains, cotton, livestock, and meats were lower in the third week of August than in the middle of July, while prices of most industrial commodities were unchanged. Steel scrap advanced further in July, then declined somewhat in the first half of August. Cotton grey goods also declined in the early part of August, while

prices of copper and rubber were maintained, following increases in the latter part of July.

Bank credit

Excess reserves of member banks declined by about \$230,000,000 in the five weeks ending August 17 to a total of \$2,930,000,000, following a steady growth from the middle of April to a peak on July 13. The decline in reserves was largely the result of an increase in Treasury deposits with the Reserve banks, reflecting receipts from weekly Treasury bill offerings in excess of maturities and a sale of Reconstruction Finance Corporation notes. Most of the decrease in excess reserves was at city banks.

Following substantial declines since the autumn of last year, commercial loans and brokers' loans at reporting member banks in 101 leading cities increased somewhat during the first half of August. Member banks in leading cities added about \$170,000,000 to their holdings of investments in the middle of July, mainly United States Government guaranteed obligations, but thereafter their holdings showed little change.

R-298

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers
of Thursday, August 25, 1938.

August 24, 1938

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. R. B. Caldwell, member of the law firm of McCune, Caldwell & Downing, Kansas City, Missouri, as deputy chairman of the Federal Reserve Bank of Kansas City for the remainder of the current year.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

87

R-299

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 27, 1938.

Dear Sir:

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

NOZVEL - Treasury Bills to be dated August 31, 1938, and to mature November 30, 1938.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 1, 1938.

Dear Sir:

The Board of Governors has carefully considered the replies received from the Federal Reserve banks to its letter (R-125) regarding the question whether the words "Morris Plan bank" should be eliminated from section 3(a) of Regulation L, dealing with interlocking bank directorates under the Clayton Act. After a review of the question and of the information submitted by the Federal Reserve banks the Board concurs in the opinion expressed by a majority of the Reserve banks that these words should be eliminated and has decided that Regulation L should be amended accordingly.

Therefore, you are advised that section 3(a) of Regulation L is amended, effective February 1, 1939, to read as follows:

"(a) Any private banker or any director, officer, or employee of a member bank of the Federal Reserve System may be at the same time a director, officer, or employee of not more than one cooperative bank, credit union or other similar institution;"

Advice of the Board's action should be mailed to all member banks in your district as promptly as possible.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-301

89

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 2, 1938.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NOZVIM - Treasury Bills to be
dated September 7, 1938, and
to mature December 7, 1938.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-302

90

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 2, 1938

SUBJECT: Functional Expense Exhibit
First Half 1938

Dear Sir:

There is inclosed a copy of the Board's Functional Expense Exhibit for the first half of 1938, which has been compiled from the semi-annual functional expense reports (Form E) received from the Federal Reserve banks and branches. Additional copies of the exhibit are being forwarded under separate cover.

The form of the exhibit has been revised so as to show approximately the same detail for each function and expense unit as is contained in the functional expense reports themselves. This change conforms to a recommendation made by the Presidents' Conference Committee, which recently reviewed proposed changes in the functional expense report and in the manual of instructions governing its preparation. It is hoped that the exhibit in revised form will prove much more valuable to the banks than have previous exhibits.

We shall appreciate receiving any comments and suggestions you may have with respect to the revised form of exhibit. In future exhibits it is contemplated that unit totals only will be shown in the branch section where the amounts reported are negligible. This will result in some reduction in the number of pages in the exhibit.

Very truly yours,

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

Inclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 3, 1938.

Dear Sir:

From time to time since the adoption of Regulation O, Loans to Executive Officers of Member Banks, the Board of Governors has been asked to modify the regulation in so far as it applies to officers of member banks who do not participate in the executive management or lending activities of the banks except in their capacity as directors. Usually the situation presented has been that of a prominent individual in the community who holds an office such as that of president or vice president of the bank but who is entirely inactive in the management of the institution. The Board has uniformly taken the position, for reasons with which you are familiar, that the definition of executive officer as contained in Regulation O applies to inactive as well as active officers of the banks.

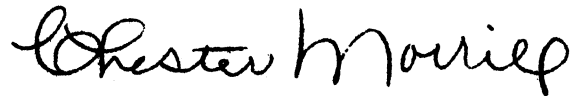
The Board is considering suggestions as to solutions of the problem which would, on the one hand, meet as far as practicable the criticisms that have been made of the Regulation and, on the other hand, not contravene the general purpose of the provisions of the law relating to loans to executive officers. Therefore, the Board would like to be informed as to the extent or importance of the problem in your Federal reserve district, whether in your judgment it would be desirable to modify the Regulation, and if in your opinion the problem is one of a character which makes it desirable to amend the Regulation, your suggestions as to the change that should be made.

In this connection, the Board has before it suggestions that there be exempted from the definition of "executive officer" as contained in subsection 1(b) of the Regulation (1) any person who does not actually participate in the management of the bank and who is denied authority to do so by express provisions in the bank's by-laws or by resolution of the board of directors or (2) any person who does not actually participate in the management of the bank and who is denied authority to do so by express provision

in the bank's by-laws or by resolution of the board of directors, provided that the title by which his position is described includes the word "honorary" or the word "inactive". Drafts of amendments which would carry out these suggestions are attached.

There may be other suggestions which in your opinion would be preferable. It will be appreciated if you will advise the Board as to your views on this subject before the end of September.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-303-a

POSSIBLE AMENDMENT TO SECTION 1 OF REGULATION O

(Alternate 1)

Resolved, that effective _____, subsection (b) of section 1 of Regulation O is amended by changing the part of the subsection which follows the semicolon therein to read as follows:

"but such term does not include (1) a director or member of a committee who is not also an executive officer within the foregoing definition, or (2) any person who does not actually participate in the management of the bank and who is denied authority to do so by express provisions in the bank's by-laws or by a resolution of the board of directors."

R-303-b

POSSIBLE AMENDMENT TO SECTION 1 OF REGULATION O

(Alternate 2)

Resolved, that effective _____,
subsection (b) of section 1 of Regulation O is amended by
changing the part of the subsection which follows the semi-
colon therein to read as follows:

"but such term does not include (1) a director or
member of a committee who is not also an executive
officer within the foregoing definition, or (2)
any person who does not actually participate in
the management of the bank and who is denied au-
thority to do so by express provisions in the
bank's by-laws or by a resolution of the board of
directors, provided that the title by which his
position is described includes the word 'honorary'
or the word 'inactive'."



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-304

95

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 8, 1938.

Dear Sir:

Reference is made to the Board's letter of August 20, 1938 (R-295), calling a conference in Washington this fall, on a date to be subsequently announced, of the heads of the bank examination departments of the Federal reserve banks.

You are accordingly notified that the conference will be held beginning Monday, October 17, 1938, at 10:00 a.m., in the Conference Room of the Board's Division of Examinations.

A tentative draft of the program for the conference will be formulated as soon as the suggestions of the various Federal reserve banks have been received. You will recall that our letter of August 20 indicated the major questions to be discussed and requested that specific questions relating thereto and any other suggested topics for consideration at the conference be forwarded to Mr. Paulger by September 17.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 9, 1938

Dear Sir:

There are inclosed herewith
copies of statement rendered by the Bureau
of Engraving and Printing, covering the
cost of preparing Federal reserve notes
from August 1 to August 30, 1938.

Very truly yours,

A handwritten signature in cursive script, reading "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-305-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
August 1 to 30, 1938.

Federal Reserve Notes, Series 1934.

	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston	72,000	14,000	86,000	\$ 7,912.00
New York	190,000	25,000	215,000	19,780.00
Philadelphia	81,000	23,000	104,000	9,568.00
Cleveland	59,000	27,000	86,000	7,912.00
Richmond	45,000	26,000	71,000	6,532.00
Atlanta	30,000	14,000	44,000	4,048.00
Chicago	127,000	35,000	162,000	14,904.00
St. Louis	35,000	10,000	45,000	4,140.00
Minneapolis	24,000	9,000	33,000	3,036.00
Kansas City	31,000	18,000	49,000	4,508.00
Dallas	30,000	8,000	38,000	3,496.00
San Francisco	<u>52,000</u>	<u>25,000</u>	<u>77,000</u>	<u>7,084.00</u>
	<u>776,000</u>	<u>234,000</u>	<u>1,010,000</u>	<u>\$92,920.00</u>

1,010,000 sheets @ \$92.00 per M . . . \$92,920.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-306

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 9, 1938

Dear Sir:

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

NOWELE - 2 1/2% Treasury Bonds of 1950-52 to be dated September 15, 1938, and to mature on September 15, 1952.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-307

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 10, 1938.

Dear Sir:

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

NOZYOT - Treasury Bills to be dated September 14, 1938, and mature December 14, 1938.

Very truly yours,

A handwritten signature in black ink, appearing to read "L. P. Bethea". The signature is fluid and cursive, with a large initial "L" and a long, sweeping underline.

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

100
R-308

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1938

SUBJECT: Call Reports of State Bank
Members and their Affiliates

Dear Sir:

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

Number of
copies

Form

Form FR 105, Report of condition of State bank member.

Form FR 105b (Schedule "O"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.

Form FR 105e, Publisher's copy of report of condition of State bank member.

Form FR 105g, Alternate Schedule E, Loans and Discounts.

Form FR 220, Report of affiliate or holding company affiliate.

Form FR 220a, Publisher's copy of report of affiliate or holding company affiliate.

Form FR 220b, Instructions for preparation of reports of affiliates and holding company affiliates.

No change has been made in any of the forms since the last call for reports, except for the omission of the two memorandum items on agricultural loans and farm real estate owned at the bottom of page 4 of Form FR 105, which are called for only twice a year.

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

Very truly yours,

A handwritten signature in cursive script, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-309
102

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1938.

Dear Sir:

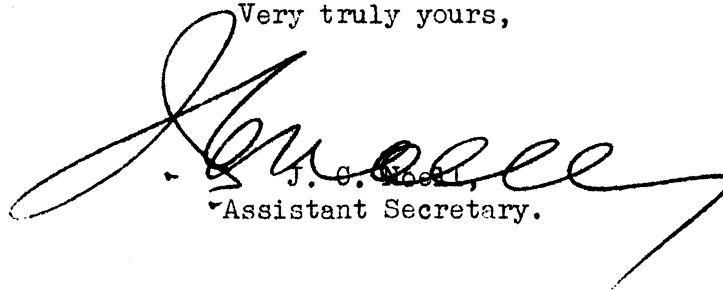
On Wednesday, October 12, there will be neither transit nor Federal Reserve note clearing and the books of the Board's Interdistrict Settlement Fund will be closed. The offices of the Board and the following Federal Reserve banks and branches will be open for business as usual:

Charlotte	St. Louis
	Little Rock
Nashville	Memphis
Detroit	Minneapolis

Kansas City
Oklahoma City

Please notify branches.

Very truly yours,


J. G. Wood,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-310
103

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1938.

Dear Sir:

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

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

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

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

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses(1)	Expenses Paid by Banks and Board(2)	Payable to Board of Governors
Boston	20,659	610	21,269	\$ 512.63	\$ 353.29	\$ 159.34
New York	63,571	-	63,571	1,532.20	1,028.34	503.86
Philadelphia	19,334	613	19,947	480.77	288.24	192.53
Cleveland	28,583	613	29,196	703.69	310.44	393.25
Richmond	24,502	610	25,112	605.25	223.59	381.66
Atlanta	41,049	610	41,659	1,004.07	300.08	703.99
Chicago	54,668	862	55,530	1,338.39	1,218.40	119.99
St. Louis	37,190	611	37,801	911.09	234.74	676.35
Minneapolis	16,504	611	17,115	412.51	206.47	206.04
Kansas City	38,356	611	38,967	939.19	264.36	674.83
Dallas	32,608	611	33,219	800.65	267.85	532.80
San Francisco	46,585	611	47,196	1,137.53	385.43	752.10
Board of Governors	242,498	-	242,498	5,844.73	11,141.47	-
Total	666,107	6,973	673,080	\$16,222.70	\$16,222.70	\$ 5,296.74

(1) Based on cost per word (\$.024102187) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,587.11) and wire rental (\$9,554.36). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

105
R-311

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

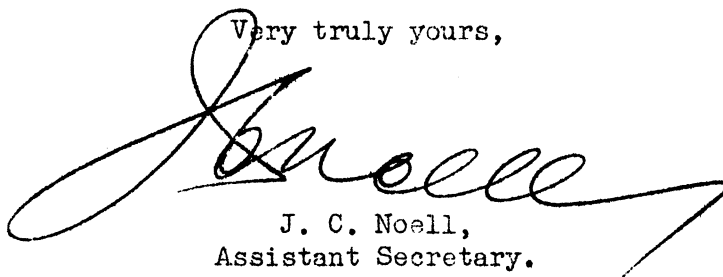
September 17, 1938.

Dear Sir:

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

NUBACS - Treasury Bills to be dated September 21, 1938, and to mature December 21, 1938.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-312
106

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.

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 2 $\frac{1}{2}$ % 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, 4 $\frac{1}{2}$ 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 5 $\frac{1}{2}$ 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.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Monday, September 26, 1938.

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

Industrial activity increased considerably in August and advanced further in September. Factory employment and payrolls also showed a substantial rise in August, and distribution of commodities to consumers increased seasonally.

Production

Volume of industrial production showed a further considerable increase in August, and the Board's seasonally adjusted index rose from 83 to 88 percent of the 1923-1925 average. In manufacturing, increases in output were general except in the automobile industry where there was a sharp seasonal decline as plants were closed for inventory taking and for preparation for the shift to new model production. At steel mills, where activity had risen considerably in July, there was a further advance in August and production was at an average rate of 42 percent of capacity as compared with 35 percent in the previous month. Output of lumber and plate glass also increased. In the textile industry the sharp advance that had been under way since early summer continued. Mill consumption of wool and cotton increased further, and deliveries of rayon

were maintained at the high level reached in July. Shoe production showed a further increase and activity at meat-packing establishments showed less than the usual seasonal decline. Production of bituminous coal and crude petroleum increased somewhat further.

In the first three weeks of September steel ingot production continued to increase, while automobile production remained at the low level reached in August. Output of crude petroleum was reduced, as wells in Texas were closed on both Saturdays and Sundays, whereas in August only Sunday closings had been required.

Value of construction contracts awarded in 37 Eastern States increased considerably in August, according to figures of the F. W. Dodge Corporation. The increase was in publicly-financed projects and reflected partly the expansion of the Public Works Administration program and the award of the first contract for the slum clearance projects of the United States Housing Authority. Awards for private residential building continued at about the same rate as in July and were close to the level reached in the spring of 1937. Commercial building, which had increased in July owing to the award of a contract for a large office building, declined in August to about the level of other recent months.

Employment

Factory employment and payrolls showed a marked rise from the middle of July to the middle of August, while in nonmanufacturing industries employment showed little change. The number employed at factories producing durable goods increased for the first time since the summer of

1937 and in the nondurable goods industries, where employment had increased in July, there was a further rise. Most leading industries reported increases in the number of workers.

Distribution

Distribution of commodities to consumers increased seasonally from July to August. Department store sales showed about the usual rise and mail order sales increased, while variety store sales declined. In the first half of September sales at department stores increased more than seasonally.

Freight-car loadings increased somewhat further in August, reflecting chiefly larger shipments of miscellaneous freight.

Commodity prices

Prices of silk and rubber showed some advance from the middle of August to the third week of September and there were also increases at the end of the period in nonferrous metals. Wheat prices fluctuated considerably but showed little net change in this period. Prices of cotton and wool declined somewhat, and there were further decreases in prices of some finished industrial products.

Bank credit

A heavy inflow of gold from abroad during the five weeks ending September 21 resulted in an increase of over \$500,000,000 in the monetary gold stock. Member bank reserves were increased by Treasury payments for gold acquired but were sharply reduced in the last week of the period by payments to the Treasury for cash purchases of new securities and quarterly income tax collections. As a consequence of these transactions,

excess reserves, which had increased to \$3,130,000,000, were reduced to \$2,740,000,000 on September 21.

Total loans and investments of reporting member banks in leading cities increased sharply during August and the first three weeks of September, reflecting chiefly an increase in holdings of United States Government obligations. Balances held in New York City for foreign banks showed a substantial increase.

Money rates and bond yields

The average yield on long-term Treasury bonds increased in September from the low point reached at the end of August. The average rate on new issues of Treasury bills increased to 0.11 percent, compared with 0.05 percent. Yields on high-grade corporate bonds increased slightly.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



R-314

September 24, 1938 ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

SUBJECT: Daily condensed condition report
of Federal Reserve banks

Dear Sir:

Under separate cover we are forwarding today a supply of revised Form FR-407 (Formerly Form B-1), "Condensed statement of condition of Federal Reserve bank", for use in wiring condition figures of your bank to the Board.

The following data wired in connection with the daily condensed condition report, in accordance with the Board's letters of March 21, 1932, B-721, and of August 1, 1934, B-1009, may be discontinued:

- Holdings of paper acquired under Section 10-a Code MANE
- New loans made under Section 10-a Code MARL
- Payments of loans made under Section 10-a Code MAST

- Holdings of paper acquired under Section 10-b Code MIND
- New loans made under Section 10-b Code MIRE
- Payments of loans made under Section 10-b Code MIST
- Renewals during week of Section 10(b) loans Code MAZE

- Bills discounted during week for individuals, partnerships and corporations under Section 13 Code MART
- Payments during week of bills discounted for individuals, partnerships and corporations under Section 13 Code MOSS

Very truly yours,

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



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

128
R-315

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 24, 1938.

Dear Sir:

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

NUBADY - Treasury Bills to be dated September 28, 1938, and to mature December 28, 1938.

Very truly yours,

A handwritten signature in cursive script that reads "S. R. Carpenter".

S. R. Carpenter,
Assistant Carpenter.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-316

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

For release in morning newspapers
of Saturday, October 1, 1938.

September 30, 1938.

FOR THE PRESS

The Board of Governors has accepted, effective as of October 1, 1938, the resignation of A. O. Stewart as a Class C Director and as Chairman of the Board and Federal Reserve Agent of the Federal Reserve Bank of San Francisco. In submitting his resignation to Chairman Eccles, who transmitted it to the Board and recommended approval, Mr. Stewart stated that by reason of an acquisition of bank stock by dividend he was no longer technically qualified under the law to continue to serve.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-317

130

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

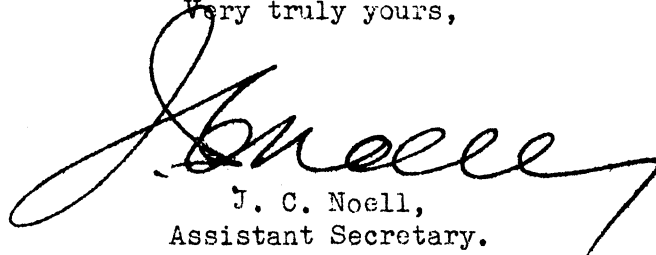
October 1, 1938.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NUBAFT - Treasury Bills to be
dated October 5, 1938, and to
mature January 4, 1939.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-318
131

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 4, 1938.

Dear Sir:

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

Deletion

New York

New York

Huth & Co.

Huth & Co., New York, New York, should be added with the following note to the list (R-164-b) of banks which filed agreements with the Board of Governors of the Federal Reserve System pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, but which are no longer in operation as nonmember banks:

(Placed in voluntary liquidation on
September 8, 1938.)

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-319 **132**

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 7, 1938.

Dear Sir:

It is noted from the minutes of the Conference of Presidents held in Washington on Tuesday, September 20, 1938, that Mr. Schaller referred to the existing arrangement between the Detroit Branch and member banks situated in Detroit whereby currency deposits of such member banks with the Detroit Branch are confined to fit currency not needed by the banks in their current operations and mutilated currency, and stated that the Federal Reserve Bank of Chicago feels that unless similar arrangements are made throughout the Federal Reserve System the present practice of the Detroit Branch should be modified.

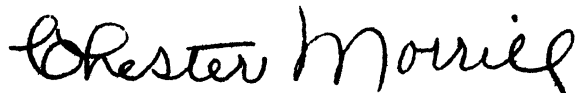
The report of the above mentioned Conference states that it was the sense of the Conference that through the efforts of the individual Federal Reserve banks any undue abuse of their currency sorting facilities has already been minimized and that each bank should continue to solicit the cooperation of its member banks in eliminating or modifying such practices as result in unreasonable demands upon, or unwarranted expense to, the Federal Reserve banks. It also appears from the Committee's report that a majority of those present at the Conference expressed the opinion, based upon the experience of their banks in negotiating with member banks respecting this problem, that the adoption of any arbitrary rule, such as that discussed at the meeting, would be inadvisable, as tending to antagonize member banks, and would be unnecessary in view of the progress already made and the further progress that might reasonably be expected to be made through the efforts of the various Federal Reserve banks.

It is understood that, if the Detroit Branch resorts to the former practice, it will be necessary for it to at least double the number of its currency counters and that if the Chicago office resorts to its former practice it will necessitate a very substantial increase in its expenses. Somewhat similar conditions, it is assumed, exist in greater or lesser degree at some of the other Federal Reserve banks.

In the report of the Committee on Free Services, dated June 8, 1933, it is stated on page 39 that "Replies to this item show that in four Reserve districts there are thirty-one member banks that make a practice of depositing currency in the afternoon and drawing out currency the next morning, while in the other eight Reserve districts this practice does not exist."

In the circumstances it will be appreciated if you will advise the Board in advance of the next Conference of Presidents as to the progress your bank has made in its efforts to induce member banks to confine their deposits of fit currency with the Reserve bank to currency in excess of their current requirements; whether your bank anticipates that it will, within a reasonable period, be able to achieve approximately the same results that have been accomplished by the Detroit Branch; also if you will furnish the Board with the names and locations of the banks in your Federal Reserve bank and Branch cities that make a practice of depositing unassorted currency at night which includes a substantial amount of fit currency needed by them for current use, and what the approximate annual saving to your bank would be if such practice were discontinued. It will also be appreciated if you will advise the Board of the number of banks that have discontinued this practice since January 1937, and the approximate reduction in expense of the Federal Reserve bank resulting therefrom.

Very truly yours,



Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-320
134

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 7, 1938.

Dear Sir:

There are inclosed herewith
copies of statement rendered by the Bureau
of Engraving and Printing, covering the
cost of preparing Federal reserve notes
from September 1 to September 29, 1938.

Very truly yours,


O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-320-a

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

Federal Reserve Notes, Series 1934.

	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston	66,000	12,000	78,000	\$ 7,176.00
New York	188,000	20,000	208,000	19,136.00
Philadelphia	74,000	20,000	94,000	8,643.00
Cleveland	50,000	19,000	69,000	6,348.00
Richmond	44,000	22,000	66,000	6,072.00
Atlanta	24,000	6,000	30,000	2,760.00
Chicago	124,000	35,000	159,000	14,628.00
St. Louis	34,000	7,000	41,000	3,772.00
Minneapolis	19,000	6,000	25,000	2,300.00
Kansas City	24,000	8,000	32,000	2,944.00
Dallas	21,000	6,000	27,000	2,484.00
San Francisco	50,000	16,000	66,000	6,072.00
	<u>718,000</u>	<u>177,000</u>	<u>895,000</u>	<u>\$82,340.00</u>

895,000 sheets @ \$92.00 per M \$82,340.00



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-321
136

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

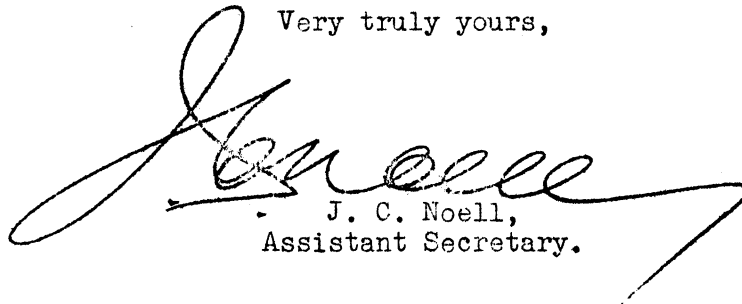
October 8, 1938.

Dear Sir:

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

NUBAGE - Treasury Bills to be dated October 13, 1938, and to mature January 11, 1939.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 14, 1938.

Dear Sir:

Inclosed is a copy of the program for the conference of representatives of the examination departments of the reserve banks, which will be held in Washington commencing Monday, October 31, 1938.

It is contemplated that the conference will be largely in the nature of a round table discussion of the various matters which have been or may be brought up for consideration, and it is believed that the program is broad enough to cover the various suggestions as to topics which have been received from the Federal reserve banks. It is requested that the representatives of each reserve bank be prepared to discuss the various subjects which they have submitted for consideration at the conference.

Included in the replies received from the reserve banks were requests for information or interpretations as distinguished from suggestions for discussion at the conference. It will be the endeavor to answer such questions specifically at the conference.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea". The signature is fluid and cursive, with a long horizontal stroke at the end.

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

TOPICS FOR CONSIDERATION AT CONFERENCE OF REPRESENTATIVES OF
THE BANK EXAMINATION DEPARTMENTS OF THE FEDERAL RESERVE BANKS

OCTOBER 31, 1938, AT 10 A.M.

ROOM 2245, FEDERAL RESERVE BUILDING, WASHINGTON, D. C.

I. The uniform agreement regarding examination procedure announced last June.

- (1) General discussion regarding the agreement, its spirit and purpose, and the circumstances leading to its adoption.

II. Investment securities.

- (1) General discussion of the treatment of investment portfolios, the approach which should be taken by the examining and supervisory authorities, and the nature of the comments which should be made by examiners regarding quality, diversification and maturity distribution of a bank's investment account.
- (2) Questions regarding appraisal of securities.
- (3) The classification of income bonds received in a reorganization or created through an agreement between obligor and bondholder which are either paying no interest or paying at a rate less than the maximum required, if earned, by the indenture or agreement.
- (4) Factors to be considered in determining the adequacy of reserves and the position to be taken with respect to the treatment of recoveries on, and profits from sale of, securities. A specific request has been received for discussion as to the consideration in this connection which should be given to depreciation in the security account.
- (5) Treatment of amortization of premiums on bonds, both as to bonds which are exempted securities under the Comptroller's regulation and those to which the provisions of the Comptroller's regulation regarding amortization are applicable.
- (6) It has been suggested that since the use of valuation reserves permits in effect the allowance of net appreciation in Groups 3 and 4 against depreciation in Group 2 securities, such appreciation should be allowed as an offset when the bank has actually written securities down instead of setting up a valuation reserve. The same argument has been advanced to support the allowance of net appreciation in Group 2 against net depreciation in Groups 3 and 4.

III. Loans

- (1) General discussion regarding classification of loans under the uniform agreement.
- (2) Suggestions have been received requesting specific discussion of:
 - a. Principles to be used in appraising short collateral loans, particularly those which are being regularly reduced by the borrowers in amounts so small in relation to the deficiency in collateral value as to require several years for liquidation of the obligations.
 - b. Appropriate classification to be accorded loans dependent for liquidation upon life insurance upon which the lending bank is paying premiums.

IV. "Other real estate" and fixed assets.

- (1) General discussion of the treatment of "other real estate" account with specific reference to the basis for classification of individual properties and the entire account.
- (2) Should member banks be required to depreciate the carrying value of "other real estate" annually at rates not less than those allowed for tax purposes?
- (3) General discussion with respect to treatment and classification of banking house and furniture and fixtures, with particular reference to the factors which should be considered in determining the amount, if any, regarded as excessive and classified as II.
- (4) Should depreciation at rates allowed for tax purposes be considered a current expense by the examiner and classified as IV if not already eliminated by the bank?
- (5) In what manner and on what basis should banking house and "other real estate", (a) held in the names of affiliated or associated organizations, (b) held by nominees for the bank, or (c) otherwise carried in loans or investments, be reflected in reports of examination and reports of condition?
- (6) Under what circumstances should real estate sold by a bank under contract be shown in reports of examination and reports of condition as (a) loans, (b) "other real estate"?

V. General supervision.

- (1) General discussion of possibilities and policy regarding work-out of banking situations where there is pressing need for rehabilitation.
- (2) General discussion of factors to be considered by examiners and the reserve banks in reviewing:
 - a. A bank's dividend policy.
 - b. A bank's policy with respect to the creation and maintenance of adequate reserves.
 - c. Applications for permission to reduce capital.
- (3) General discussion of use of section 30 regarding removal of bank officers and directors.
- (4) Responsibility of examiners for the Federal reserve banks regarding verification of assets, etc., in cases of joint examinations.

VI. Revised form of report of examination.

- (1) General discussion regarding details and use of the revised form of report of examination.
- (2) General discussion regarding the use of valuation reserves and their treatment in reports of examination.
- (3) Discussion regarding the desirability of furnishing
 - a. Work sheets (pencil copy form) for use in preparing reports of examinations,
 - b. Examiner's questionnaire to supplement reports of examination.
- (4) Revision of Form 212.

VII. Banking laws and regulations.

- (1) Responsibility of the examiners for the Federal reserve banks in observing and reporting on the practical operation of laws and regulations relating to member banks in order that the reserve banks and the Board may have the benefit of such observations and suggestions based thereon in considering possible amendments.

VII. Banking laws and regulations (Cont'd)

- (2) Examination problems and procedure with respect to determination of compliance or noncompliance with regulations regarding payment of interest on demand and time deposits.
- (3) Examination problems and procedure under Regulation U.
- (4) Examination problems and procedure with respect to the Clayton Act and Regulation L.

VIII. Possibilities of making examination and supervisory activities of Federal reserve banks more constructive and helpful to member banks.IX. Miscellaneous.

- (1) Answers to certain specific questions which have been received and discussion of various matters which may be brought up.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

142

R-323

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 15, 1938.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NUBAIR - Treasury Bills to be
dated October 19, 1938, and to
mature January 18, 1939.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-324 143

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1938.

Dear Sir:

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

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

Very truly yours,


O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-324-a

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

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	26,576	1,179	27,755	\$ 569.89	\$ 283.30	\$ 286.59
New York	78,982	-	78,982	1,621.73	1,026.90	594.83
Philadelphia	24,163	1,190	25,353	520.57	246.60	273.97
Cleveland	36,981	1,191	38,172	783.78	316.31	467.47
Richmond	31,483	1,172	32,655	670.50	224.82	445.68
Atlanta	48,716	1,171	49,887	1,024.33	306.41	717.92
Chicago	62,498	1,529	64,027	1,314.66	1,217.15	97.51
St. Louis	43,808	1,171	44,979	923.55	235.38	688.17
Minneapolis	19,072	1,171	20,243	415.65	198.11	217.54
Kansas City	43,778	1,199	44,977	923.51	259.21	664.30
Dallas	36,756	1,205	37,961	779.45	281.90	497.55
San Francisco	52,496	1,255	53,751	1,103.66	378.55	725.11
Board of Governors	299,843	-	299,843	6,156.65	11,833.29	-
Total	805,152	13,433	818,585	\$16,807.93	\$16,807.93	\$5,676.64

(1) Based on cost per word (\$.020532907) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,717.92) and wire rental (\$10,115.37). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTONADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1938.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that on Tuesday, November 1, the New Orleans branch of the Federal Reserve Bank of Atlanta will be closed in observance of All Saints Day. Please include transit clearing credits of November 1 for the New Orleans branch with your credits of the following day.

On Tuesday, November 8, General Election Day, there will be neither transit nor Federal Reserve note clearing through the Interdistrict Settlement Fund. The Board is advised, however, that the following Federal Reserve banks and branches will be open for business on that date:

Boston	Little Rock
	Louisville
Cleveland (until 1 p.m.)	
Cincinnati (until 1 p.m.)	Omaha
Atlanta	Salt Lake City
Birmingham	
New Orleans	

On Friday, November 11, Armistice Day, and Thursday, November 24, Thanksgiving Day, the offices of the Board of Governors and all Federal Reserve banks and branches will be closed.

Please notify branches.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

146

R-326

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 19, 1938

Dear Sir:

It has been brought to our attention that the figures for salaries of officers and employees on pages 1-4 of the Board's functional expense exhibit for the first half of 1938 include certain duplications. The figures shown represent the aggregate of the salary items of all units without deduction for duplications resulting from the distribution of expenses from certain service units to other units, particularly to the fiscal agency, custodianship and depository units. We are unable from the Form E reports, as submitted, to determine definitely in all cases the amounts of salaries without duplications, and, accordingly, it will be appreciated if you will have someone indicate on the copies of the functional expense report exhibit for the first half of 1938, forwarded to your bank, that the salary figures on pages 1-4 include duplications and should, therefore, not be used.

In this connection please advise us at your early convenience of the amount of salaries at your head office and branches, if any, corresponding to the total average number of officers and the total average number of employees as reported on page 1 of Form E for the first half of 1938.

Very truly yours,

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

TO THE PRESIDENT OF EACH FEDERAL RESERVE BANK EXCEPT MINNEAPOLIS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

147
R-327

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 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 September 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

Boston

During the period September 1st to October 6th visits were made to 44 member banks and seven nonmember banks. Of the total, 34 visits were made subsequent to September 21st to banks located in the storm and flood stricken areas.

In so far as it could be determined there will be no bank strain as a result of the storm and floods. Property damage along the seashore, other than that suffered by communication and transportation companies, was mostly to small pleasure boats and beach cottages. A few banks, mostly savings banks, in small communities adjacent to the beaches will doubtless have to refinance some mortgages made on beach properties and perhaps take some loss. Member banks hold very few mortgages of this type. The damage to factory properties in the sections visited, except in north-central Massachusetts, is not great and payrolls were only temporarily affected and in most cases because of lack of power or inability to move materials and finished goods in and out of the plants due to interruption of transportation facilities. Plant damage was more noticeable in north-central Massachusetts. Here there was considerable flood damage to buildings, equipment and stock. However only a few small plants have suspended all operations indefinitely - most plants were operating one or more departments and contemplating early resumption of full operations.

The agricultural section in the Connecticut River Valley and the timber lands extending from northern Massachusetts up into New Hampshire and Vermont were more seriously affected by the storm and floods. In some sections along the river fifty per cent or more of the 1938 tobacco crop and about half the tobacco sheds were destroyed. Much of the onion crop, which had been sacked and stored on the fields, was washed away, and the potato crop, still in the ground, is believed to be a loss. It is not the practice of the banks in this section to make crop loans and no bank visited felt that its portfolio would suffer directly, though loans made to retailers and others dependent upon farm trade might be affected. Crop financing in this section is largely in the hands of the government agencies.

The most seriously affected areas visited and where there is an urgent need for funds are in the timber lands. Experienced lumbermen have estimated that the amount of timber down is something over a billion feet and that from fifty to seventy-five percent can be salvaged. The need for prompt action is imperative as much of the work of salvaging must be undertaken before a heavy snow-fall, and the timber cut, square-edged and stored or floated in the ponds and lakes within the next six months. The fire hazard created by fallen timber must be removed to avoid further destruction in the spring and summer.

Many farmers throughout the section have suffered heavily by the destruction of their wood lots. In many cases the only money

source they have had is from the sale of timber from these lots, and for many of them the wood lot takes the place of the savings account, its ultimate sale being contemplated to provide funds for their old age.

Bankers and others are expressing the view that the salvaging of the timber presents problems of organization and finance too big to be handled except by the Federal government. A tentative plan that is being talked throughout the section provides for the formation of a corporation by all of the New England States, the sale of certificates to the general public of New England, and employment of funds received from this source together with the proceeds of a substantial Federal loan in buying up the timber for cash, processing and marketing it in an orderly manner.

Practically every bank visited has advertised in the newspapers and otherwise of its readiness to make so-called "catastrophe loans" to home owners and others. Surprisingly few inquiries have been received and the bankers advise that in many cases temporary repairs have been made and that the owners intend to apply for Federal aid.

New York

During the month of September, our representatives visited 111 banks of which 85 are member and 26 nonmember institutions.

Saratoga, Warren and Washington Counties, New York

Market value of securities owned by the majority of banks is substantially lower than book value, depreciation varying generally between 2 and 5 per cent. In the case of one nonmember state bank, security depreciation is almost 20 per cent. Six member banks, however, claim an appreciation in their portfolios which in two cases is quite substantial, amounting to 12 and 14 per cent respectively. Although investments in securities have decreased during the past year, the proportion of United States government obligations owned has increased and now comprises approximately 50 per cent of the security lists.

With few exceptions, bank officers in this territory continue to comment on the lack of demand for accommodation on the part of good borrowers. Loan lists remain practically stationary, the volume of new loans being about sufficient to offset the payments on the old. Several banks have made an effort to take care of the demand for Federal Housing Administration loans.

Business conditions in this area, in the opinion of bank officers, have improved very little since last April when these banks were

visited. Industrial activity is centered chiefly in Glens Falls and Hudson Falls in which cities the manufacturing concerns, chiefly paper and pulp mills, are fairly busy. Bankers in other smaller manufacturing centers report that mills are operating with greatly reduced forces and only as orders for goods are received.

Milk prices for some time past have been too low to afford the dairy farmer any margin of profit.

The volume of summer resort trade in Warren County, along Lake George and in the Adirondacks, is estimated to have been about 25 per cent less than last year. The 1938 season in Saratoga Springs is also said to have been considerably less profitable than that of 1937.

Hunterdon, Somerset and Union Counties, New Jersey

The demand for loans continues very light. Officers of banks in the industrial centers state that there has been no increase to speak of in the demand for business loans, and as a consequence they express doubt as to the prospects of genuine business recovery this autumn. Some bankers remark that they have found it necessary to change with the times and that efforts are being made to stimulate an interest in other types of accommodation such as personal loans, automobile financing, and loans under Titles I and II of the National Housing Act, in order to offset the lack of demand for industrial and commercial credits.

Several bankers comment that net earnings this year will not be as large as last year because loans are gradually decreasing and there is no great demand for new loans, and that earnings are being adversely affected by the increase of idle cash or by making investments in short term securities at low yields, while deposits on which interest is being paid are holding steady or showing a slight increase. An officer of one bank in Elizabeth referred to the fact that his institution (deposits \$7,000,000) has carried over \$1,000,000 idle money for the past several months and indicated that he is now looking with more enthusiasm than formerly toward investing a part of his excess funds in Title II Federal Housing Administration mortgages. The president of another bank in Elizabeth reports practically no demand for loans locally and says that his bank (deposits \$15,000,000) has held over \$3,500,000 idle funds for several months. He mentioned that his institution formerly invested as high as \$1,000,000 in commercial paper, but stated that most of it has run off without replacement as he would rather have the money remain idle than invested in paper at such low rates as 5/8 to 3/4 per cent because he feels that the risk involved is hardly worth the low income obtained.

There are quite a number of large industrial concerns in Union and Somerset counties, and factory employment and payrolls reflect considerable increase in activity as compared with a few months ago.

Hunterdon County is primarily agricultural. Dairying and poultry raising are the principal agricultural pursuits and farmers in general are enjoying a satisfactory income this season as a result of favorable prices for their products and lower costs for feed and grain than previously. The dairy farmers receive a better net return for milk than elsewhere because of their proximity to the metropolitan markets; and in one section they are so well organized that production is controlled which is resulting in a price of \$3 to \$3.50 per hundredweight, or nearly 100 per cent greater than is being received in other sections. The establishment of an auction market within the county has been of great benefit to the chicken farmers as they now have not only a ready cash market for their products but are receiving a higher level of prices than they were able to obtain formerly. The fact that a cash income is received monthly by the farmers is a stabilizing factor to retail trade and the view was expressed by several bankers in this area that, although the merchants receive no great benefit from periods of general business prosperity, they do not suffer much from depressions.

Philadelphia

Fairly satisfactory industrial activity prevails in the areas visited, though in some communities it is declining and in others it has been slack. Retail trade was reported to show a decline in nearly every important community with a consequent slowing of collections. While this condition has not yet affected loan liquidation noticeably, bankers anticipate that it will.

Agricultural conditions are poor. The farmers of Delaware appear to be in a worse condition than those in Pennsylvania, probably because their crops suffered greater weather damage. The greatly reduced farm income is affecting liquidation of loans and will no doubt be reflected in retail trade and in the purchase of, and payment for, farm equipment in these areas. It is probable that there will be heavier demands made upon the banks by the farmers during the coming month and unless there is an improvement in the investment market it is believed that several banks in the farming sections will need reserve bank credit to enable them to meet these demands.

The real estate situation in the majority of the communities appears to be improving. Housing shortages have caused an advance in rents as well as considerable new construction. Sales of old properties are not numerous, although they are expected to increase as the investment opportunities in this market become better known and some of the public's apparent aversion to owning real estate passes.

The president of a strong national bank having deposits of about \$10,500,000 said that he considered the regulations of the Comptroller restricting securities investments to be a mistake as they narrow the market for ineligible securities and cause unnecessary losses to banks which are holding securities of this type, and also hasten the sale of securities whose ratings decline to near the borderline, upsetting the market and increasing losses. He contends that insurance companies, corporations, and other large investors follow the lead of banks in this respect.

The president of a national bank with deposits of about \$2,000,000 criticized the national bank examiners for what he said was a failure to consider that the executive officer of a bank knows what he is talking about when discussing lines of credit. He also stated that it appeared to him as though each examiner was anxious to criticize all items criticized by the previous examiner and in addition to find some new criticism. He said that he had discussed two items of criticism with the Deputy Comptroller, who dismissed the criticisms, notwithstanding which they continue to appear in the subsequent reports.

It has been the practice of our representatives when calling at nonmember banks to try to interest the officers in membership, but it is difficult to do so to the extent that they are willing to discuss the ability of their respective institutions to meet requirements. Many of them listen to the discussion but claim that membership does not offer sufficient advantages to offset the necessity of keeping higher reserves. Many officers claim that their correspondent banks meet all their needs, eliminating any necessity for reserve bank services. Other bankers, who it is believed would like to be associated with the System, state that they wish to feel certain that banking legislation is in a more settled state than during recent years.

In general, nonmember bankers appear to believe that the provisions of the Banking Act of 1935 which require that banks with deposits of \$1,000,000 or more be members of the System by 1942 in

order to retain deposit insurance, will be modified or eliminated by the effective date.

Cleveland

Most of the banks visited during the month are located in agricultural communities. The decline in prices of agricultural products has been somewhat of a depressing influence. Many bankers are advising farmers to borrow money and buy feeder cattle and hogs because of the low prices for grains and the relatively higher prices for live stock.

Much concern was expressed by bankers over growing relief rolls and the administration of relief and old age pensions. It was sometimes impossible to keep the conversation in other channels.

In the State of Kentucky there has developed a strong demand for funds, mostly seasonal, in connection with the movement of the tobacco crop, which is large and of unusually good quality. There is a marked increase in the demand for mortgage loans, and many banks are gradually shifting investments into mortgage loan channels. Numerous banks in this and other sections of the district are reducing their holdings of governments, and in some cases high grade corporates. In one instance (a \$3,700,000 bank) the entire investment account consists of \$60,000 in Canadian governments. Other banks are converting United States government long-term issues into short-term notes or bonds.

A few Kentucky member banks are borrowing from correspondent banks in Louisville at or below our discount rate. The lowest rate reported to date is 1-1/4%. A feature of such borrowing is their objection to the fifteen-day limitation on member bank notes, government secured, and they would welcome an extension of this period to ninety days, which ordinarily would carry them through the period of borrowing required to finance the movement of the tobacco crop.

In Pennsylvania as well as in Kentucky there is developing a demand for real estate loans. At least one bank has indicated that it has applications for such loans in excess of its legal limit. Other banks are purchasing insured mortgages, in some cases to the maximum permitted.

A visit to a new State nonmember bank (formerly a national bank) elicited the information that the only reason for surrendering a national charter was to permit an outright retirement of \$25,000 of preferred stock.

Richmond

Northwestern West Virginia

With some exceptions their banks report an increase of loans and deposits as compared to February and March of 1938. Practically all loans carry a rate of 6% and most banks are paying 2½% on time deposits. Notwithstanding this high rate, service charges are but slightly developed, the most common explanation being the unwillingness of some competing bank to come to an understanding. There is little interest in investments and banks are disposed to build up local loans and some go so far as to solicit such loans.

Virginia

Loans and deposits have increased somewhat since the first of the year and all funds not employed in local loans and invested in Federal, state, and municipal bonds are held as cash or balances due from banks. There is little interest in corporate issues. Six per cent is charged on most loans, with a lower rate very infrequently made to preferred borrowers. Two and one-half per cent is paid on time deposits and service charges are fairly well developed.

There appears to be no serious interest in the new examination policy nor in the revised investment regulations of the Comptroller. It is contended that every sound application for credit is warmly welcomed and the demand for non-bankable credit is small. Hence, there is no need for consideration of relaxed standards. Officers and directors are active in their efforts to discover new, safe loans. Production Credit Association loans have taken little business from banks that they could accept.

West Central North Carolina

The bulk of the time deposits of most banks receive 2% interest, but there is a tendency to reduce the rate on large balances. Higher rates are paid on deposits where competition is strong. There is resentment among bankers because of the criticism that they do not make enough loans. It is felt that no actually safe loans are rejected. As for relations with the Federal Reserve Bank of Richmond,

one banker said, "--- in view of the revenue derived from exchange charges, which represent approximately the net earnings of (this) bank, membership in the Federal Reserve System would be considered only when made mandatory by law." Another banker expressed the opinion that member banks should be permitted "--- to deposit checks for collection without assortment as to availability dates, giving the member bank credit on a fixed average availability." Banks do not give much weight to the new examination procedure, holding that credit policies of banks cannot be safely relaxed beyond present practice even if permissible under the new method of classification.

This region has a fortunate combination of a fairly good agricultural industry plus many manufacturing establishments of various sorts. Cotton acreage has been reduced and the yields have been poor, but loss of farm income from this source is partly offset by corn and sweet potato crops that are better than average, though prices for both are somewhat lower than last year. Farmers in some localities complain of cotton acreage allotments by aerial survey. Livestock is an important industry in some counties and could be made so in others, much to the advantage of the farmers.

Furniture and hosiery plants are operating at or near a full-time basis, but few cotton textile mills are doing better than three eight-hour shifts, five days per week, while some are operating only one. There appears to be a certain hope that business will improve in the near future, but the feeling does not amount to optimism and the long-run view is not considered encouraging. Conditions among manufacturing industries have improved within the last few months but full production has not yet been attained.

Southeastern North Carolina

Bank relations are complicated by the competition of non-par banks which profit from exchange charges. These are not defended as ethical, but are deemed necessary and in one case it was contended that branches needed in certain communities could not be maintained without them. It was pointed out that a lone bank cannot become a member unless its competitors are also brought in so that competitive conditions will be uniform for all.

Northeastern South Carolina

Recently bank deposits have been greatly increased because of the sales of tobacco, but the demand for loans has not altered materially. Crop production loans during the current season have been rather less than usual, with rates varying from 2% to 7%.

Two per cent is paid on time deposits, although in some cases this rate is confined to old deposits and a lower rate or none is paid on new. In other cases the rate is graduated downward. The relations among banks and the ability to cooperate seems to be the controlling factor in interest on time deposits.

Atlanta

Southwest Alabama

Our representative visited 20 member banks and 4 nonmember banks located in the southwestern part of Alabama. The territory covered is an agricultural section, the principal commodity being cotton. This year's cotton crop suffered considerable damage from excessive rainfall and the boll weevil. The crop is a short one, the yield being from 40% to 60% below that of last year.

With the price of cotton at around 8¢ a pound and the Commodity Credit Corporation's loan value approximating this figure, most of the bankers in the territory visited are frank to state that business among the local merchants cannot be other than bad. The majority of these country bankers anticipate slow collections and more than a normal extension of their farm paper, with possibly some charge-offs. After the average farmer pays his debts he will have little money to spend, except for the bare necessities of life.

One encouraging development is the increasing interest shown in the raising of live stock. The raising of beef cattle is growing in importance each year, especially in the Counties of Greene, Sumter, Marengo, Hale, Perry and Dallas.

A number of saw mills are located in and around York and Demopolis. The largest mill is in York, employs 300 to 400 men, and has operated throughout the depression. Lumber production is ahead of sales. This condition is presently accentuated because of the fact that the small mills are sawing and stacking lumber while labor is cheap, before the wages and hours law becomes effective and forces them to increase wages. Our representative was told that small mills contend they cannot remain in business and pay the minimum wage required under this law.

Louisiana

Bankers in the city of Lake Charles and vicinity report that business at their institutions is better than that of a year ago, and considerable further improvement is expected during the remainder

of the year. Retail sales for the year to date are slightly under the figures for the same period of last year, but it is expected that figures for the full year 1938 will equal or exceed those of 1937.

The location of a packing plant in Lake Charles by Swift & Company has provided a market for beef cattle. This plant, which at the present time employs over 200 men, has a capacity of 1,000 head per day and is now operating at approximately 60% of capacity. It was stated that cattle are received at the plant in Lake Charles from points several hundred miles distant. The farmers are taking greater interest in their cattle, by improving breeds and by feeding for a time prior to marketing.

The principal crop in the territory surrounding Lake Charles is rice. This crop has been damaged somewhat due to a combination of wind and heavy rains. It is predicted that the rice crop will not be as large as last year, and that in all likelihood the grade will not be as good.

Exploration for oil is very active in south Louisiana.

In the vicinity of Alexandria cotton is the principal crop. Our representative was advised that due to acreage reduction and excessive rain during the growing season this year's crop will be much smaller than that of last year.

The banks in Alexandria report that they are giving more and more attention to personal loans, which are rapidly becoming an important source of earnings. These banks have recently made loans to saw mills manufacturing hardwood lumber for inventory in anticipation of the effective date of the wages and hours law. The raising of cattle and hogs in the territory surrounding Alexandria is increasing in importance each year.

Visits were made to 4 banks located in a section where the principal crop is sugar cane. It was stated that this year's crop of cane appears to be the finest in ten years. If the growers obtain anything like a fair price it is anticipated that local business conditions will be unusually good this fall.

Chicago

The banks visited in northern Michigan report retail trade as fair, although affected somewhat by the resort business, which is estimated at from 75 to 80 per cent of last year.

Part of the territory visited is in the fruit section. The quality of the fruit this year is poor and the price unsatisfactory. Cherries are three cents a pound compared with four cents last year. In some sections, the grape crop is only five per cent of normal. As a consequence of these conditions, many of the farmers are giving up fruit growing and turning to dairying.

Some residential building is reported, as well as several public institutions under construction, with more repairing and painting than in many years.

Banks report very little change in the loan situation except that there seems to be a fair demand for mortgage loans.

The question of offices or so-called "branches" continues to be an obstacle to membership. Some of the nonmember banks visited either have branches or are contemplating the establishment of one or more; one member bank is arranging to open three or four branches and will withdraw from the System, and another is considering similar action.

Very little change has been noted in conditions in Illinois since previous reports. One banker expressed the thought that some hoarding of funds is going on and referred to instances that had come under his personal observation.

Group meetings were attended in Illinois, Indiana, and Wisconsin.

At the Illinois meetings, the principal subject of concern seemed to be the forthcoming referendum on an amendment to the State constitution, which would, if approved, relieve State bank stockholders of double liability. One speaker pointed out that under Section 10b of the Federal Reserve Act it is now possible for the reserve banks to loan on municipal bonds, corporate bonds, or any other type of sound asset. He stressed the value of this and stated: "If for no other reason, the ability of a bank to secure aid in an emergency under this provision should be a sufficient inducement for every nonmember bank to join the System."

St. Louis

Coincident with the change from summer to fall, there has been a perceptible, though small, improvement in business in the smaller communities and agricultural centers.

In the South, cotton picking is proceeding, and while the total number of bales produced will be considerably below the 1937 record, results promise to be satisfactory, particularly in cases where compliance has been made with the provisions of the Soil Conservation program.

Prospects for the tobacco crop are very favorable and the opinion prevails that prices will at least be as high as those of last season. Farmers in sections of Indiana and Kentucky where burley tobacco is grown are worried as to the effect of too much moisture on their crop.

It is reported that there is a splendid crop of rice in Arkansas, but the price, which opened at 50¢ per bushel, is too low for farmers to do more than pay off their borrowed money.

Valuable oil development work continues in various counties in southern Illinois, where in less than two years more than one thousand producing wells have been drilled, with a monthly production of $1\frac{1}{2}$ million barrels. Numerous communities in the area affected are experiencing the greatest "boom" in their history.

Coal production shows some improvement, although the summer output was much below normal.

A member bank president reiterated his concern about the non-par situation and expressed the opinion that the future of the F. R. System from the standpoint of country members depended upon some action being taken to overcome the inequalities between members and nonmembers resulting from the latter being allowed to charge exchange on checks received through the mail. He was particularly interested in the activities of the National Association of Credit Men in endeavoring to develop a universal par list and felt they should be encouraged. He believed that the passing back to depositors of any exchange cost on non-par items, whether or not such expense was absorbed by correspondent banks, should tend to cause banks to discontinue charging exchange.

The cashier of an Arkansas member bank was very outspoken in his appreciation of membership in the System. He mentioned the handicap incident to the handling of checks on non-par banks, and how it had been solved in connection with one Arkansas nonmember, by presenting a large volume for payment in currency.

The cashier of a Missouri nonmember bank inquired as to the date his bank would be obliged to become a member of the F. R. System. He indicated that regardless of the ethics of charging exchange on checks received through the mails, he will be reluctant to give up the income derived therefrom until obliged to do so. He feels it is not exactly proper for a bank to charge exchange and would welcome some outside action which would compel him to par. He feels that the National Association of Credit Men will be successful in their campaign for a universal

par list and stated that his customers were constantly inquiring about charges the bank was making for paying their checks, which charges were brought to their attention by the firms from which they were buying goods.

Our visiting officer was somewhat surprised to find the door of a small Indiana nonmember securely locked during banking hours. Following an inquiry through a speaking tube at one side of the door, and a satisfactory reply, the door was opened by electricity and our officer was admitted. The bank was using this means of protection following a recent robbery.

Minneapolis

Western North Dakota

The territory covered was first developed as a cattle country and later turned into wheat, especially during the World War. It is now in process of transition back to cattle and sheep, although there is some dairying being developed west of Bismarck, and there are a few areas where wheat seems to have done reasonably well or where the population insists on raising wheat with government assistance. The government program of paying bounties for soil conservation and for reduction in wheat acreage has aided materially in the return of this country to livestock growing, and most of the bankers are thoroughly in accord with this trend. Several bankers stated that the government would be even more far-sighted if it completely discontinued seed loans and wheat allotments, and used the same money to finance restocking of the ranges and the purchase of land for inclusion in government range areas.

This territory suffered a serious disaster in its cash crops this year and, as a result, the entire area seemed to be "shell-shocked", not knowing how the population can get through the winter and hardly realizing the extent of the damage. Moisture conditions had been excellent during the growing season, averaging twice as much precipitation as in eastern North Dakota and, in many places, more rainfall than in any other year during the past thirty to fifty years. Shortly before harvest, rust attacked all of the wheat, except Thatcher wheat, and then a plague of grasshoppers descended, moving from southeast to northwest and taking all of the crops. Wheat, which promised to yield 20-30 bushels per acre, was unfit to cut or, if threshed, yielded from 1/2 bushel to 1-1/2 bushels per acre.

The letter to all banks urging them to make more loans and threatening government lending activities as an alternative had made a deep impression on the bankers of this region, although the reactions were very diverse. One banker was quite amused by the letter, for he said that in his area he had taken on all the loans that his bank could stand. Several bankers were puzzled. They discussed their loan situation

in some detail, describing the position of farmer customers in the light of the many years of drouth, rust, and low prices, and asked whether it was thought that they should try to make loans to these farmers who had mortgaged everything they possessed to Federal agencies. A few bankers seemed to have very definite ideas of the maximum amount which they should allow their loan portfolios to reach in view of the hazards of farming and banking in this dry country. A number of bankers in southern North Dakota stated very frankly that they were over-loaned at the present time and that their banks were filled with frozen paper to a point which indicated that some of these banks would not live through the winter. Two nonmember banks which are in excellent condition and on the par list gave the letter as sufficient reason for not joining the Federal Reserve System, stating that if political coercion is going to take this form, they thought the farther away from the Federal banking system they were able to stay, the better off they would be.

The Bank of North Dakota was very active. More than half of its staff is employed in handling farm loans for the North Dakota Rural Credits Board and the state-owned farms which have been taken over through foreclosure by that organization. The principal lending activity is on school warrants to assist the school districts in paying salaries. The deposits are chiefly public deposits of county and State officials. The bank has \$800,000 of private deposits, principally coming from communities which have no banks. The auditor stated that these private deposits are more of a nuisance, and required more clerical labor, than the \$20,000,000 of public deposits required.

The North Dakota Moratorium laws were a decided hindrance to some bankers but not to others. One National banker stated that it was almost impossible for him to make loans in his community on account of the various moratorium provisions behind which borrowers could hide. Several other bankers stated that they were continuing their lending operations on a somewhat more conservative basis than would be necessary without the moratorium laws, but that they have had no customers who had invoked these laws. The bankers merely found it necessary to use more diplomacy in handling collections. In areas where the bankers claimed to have been conservative there was no radicalism and very little trouble with collections. In the areas where banks were badly frozen on account of liberal lending policies, the bankers complained of a discouraged and generally recalcitrant attitude on the part of their borrowers.

Kansas City

Representatives of this bank called on about 100 banks during September. The effect of the war scare on bankers' feelings toward their holdings of Government securities was marked. During the time the situation was acute, invariably the first question asked was "What's this Government bond market going to do?" or "Don't you think we had better

unload some of our Governments?" After the crisis had passed, this nervousness regarding their Government investments subsided appreciably.

Real estate loans on small tracts of land are especially favored in some places. These loans are made for comparatively short periods on 5, 10, 25, 40, or 80-acre tracts. The loan is amortized. If payments are satisfactory, a new loan is made at maturity. Government lending agencies such as the land banks have no machinery for loans on these small pieces of land and commercial banks report a rather brisk demand for such loans.

A banker in a small town found his loans had dwindled to less than \$30,000 in February and he decided to drum up some business. He specialized in automobile, tractor, and other implement installment notes. Since the first of the year he has made more than 700 loans out of a total of more than 1,000 applications. His experience to date with these loans is said to be entirely satisfactory and very profitable. In only one case has it been necessary to take over the security - an automobile that was re-sold at a profit. The activities of this small bank in the solicitation of this type of loan have caused a great deal of criticism from many bankers in surrounding towns.

Bankers express concern at the number of people moving from the land to town. Buildings are being moved off the land or torn down in order to reduce taxes. The farms are operated from town with machinery and hired help. One banker gave his own experience. For many years he has owned 16 farms in his community. Formerly there was a family on each farm. These farmers made a good living, raised and educated their families, and he made a profit on his share of the crop. Today there are no families on any of his farms and he does all the work with tractors and three hired men. He now gets all the crop but makes less money than formerly when he received only the landlord's share.

In the last few weeks many banks report a decline in deposits. Quite a number of small banks are getting into a position where they must soon borrow.

There is a vast amount of grumbling among farmers over the acreage reduction features of the triple A. But, curiously enough, farmers would probably reduce wheat acreage nearly to the requirement even though there were no compulsion. In eastern Kansas, where the reductions are most sweeping, farmers are much in the mood of going back to corn and livestock. There is a large amount of wheat on the farm. In some sections of Kansas it is said from 75 to 80 per cent of the crop is being held. Banks are making some loans on this wheat, the amount ranging all the way from 30 to 45 cents a bushel.

Banks report that city banks are very active in soliciting country bank accounts. One of the important obstacles to membership

is the attempt of correspondent banks to give the same service now performed by Federal Reserve banks.

Dallas

Northeast Texas

In this section of the state, where cotton dominates the fortunes of both the urban and rural population, the cotton growers, merchants and banks are beginning to feel the pinch of the sharply curtailed volume and low market value of this year's cotton crop, which is now in process of being harvested.

With the staple quoted at around 8 cents a pound, the government's offer to lend 8.30 cents is having the effect of taking practically the entire production of these counties off of the market. European war clouds, which in some quarters were interpreted as presaging a possible expansion of the foreign market for American cotton, have also tended to encourage the producers to take advantage of the government's 1938 loan plan. As a result of these conditions the portion of the new crop that is being sold in this area is extremely small, representing, in most cases, distress sales by farmers who need funds badly and can wait no longer for the arrival of the government's new loan forms or its subsidy checks covering last year's farming operations.

Discontent among farmers is widespread and bitter as a result of the dilatory manner in which the government has administered its cotton crop program this year. When planting time arrived last spring the federal and local authorities were not ready to announce individual acreage allotments. Farmers went ahead and guessed at their allowances, their guess work proved too optimistic, and as a result much fine cotton had to be plowed up when ready to be picked. Then again when the crop was ready to be gathered and stored, the government did not have the new loan forms ready for distribution, and the banks were powerless to make any advances under the Commodity Credit Corporation plan.

These delays naturally increased the anger of the harassed producers, and in one East Texas community their resentment of the situation culminated in violence when a group of disappointed farmers rioted in the county agent's office and gave vent to their displeasure by smashing his furniture and office equipment. Although this was an extreme case it was significant as an indication of the spirit of dissatisfaction that is widespread in the Texas cotton belt at this time.

Farmers who originally accepted the government's acreage reduction plan as the only visible means of forestalling ruinous overproduction are now in such an ugly mood as a result of the way it has worked out this year that if an immediate vote were taken on renewing

the program for another year it would in all probability be voted down. It is possible that their attitude will change after they receive their subsidies for last year's operations. There is a growing belief, however, that the producers are becoming strongly in favor of doing away entirely with the present scheme of acreage control and taking their chances on a return to unrestricted production.

The president of a well managed bank having deposits of \$500,000 advanced a suggestion regarding officers' borrowings. He said that the present system of inter-bank accommodations under which member bank officers are forced to use their correspondent banks as a means of supplying their personal credit needs is unsatisfactory and in many cases gives rise to unwholesome reciprocal borrowings, city and country banks exchanging accommodations and allowing them to "ride" until they become solidly frozen. His suggested remedy for this situation is an amendment to the Federal Reserve Act that would authorize Federal Reserve banks to make direct loans to executive officers of their member banks under such rules and regulations as would insure the soundness of such advances.

San Francisco

South Central Idaho

The 22 banks and branch banks visited during the period September 21 to 30, inclusive, are all of the banking offices located in the south central part of the State of Idaho, most of them in highly diversified, irrigated agricultural districts, the remainder being in or very near mountainous regions where the livestock industry, both sheep and cattle, is the more important.

The season has been favorable for the growing of all agricultural crops and average to above-average yields have been or are now being harvested. Total farm income will, however, be less than last year because of lower market prices now prevailing, particularly for grains, beans, and butter fat. Ranges have been above average condition all summer and livestock, the movement of which from the mountain summer ranges is beginning, are in better than average flesh condition. The proportion of range lambs ready for the market without additional feeding is said to be larger than usual and the market price has declined a little during recent weeks. Although feed is relatively cheap, prospective lamb feeders, we were informed, are proceeding with caution in view of losses experienced in the business last winter and their thought that the margin of profit in feeding operations during the coming winter is apt to be narrow.

During the past 18 months, a number of people who were located on farms in the Dakotas, Kansas, and Nebraska, have moved into south central Idaho. Most of them have arrived with limited means and a few

have undertaken to buy small irrigated farms on contracts; some have taken raw land for which water for irrigation is available on a tract being opened north of Shoshone under the Resettlement program, while others have sought whatever employment was available, resulting in material improvement of the farm labor situation in that region.

Walla Walla district, Washington

The wheat crop in the Walla Walla district had been harvested, and for the acreage planted normal results were obtained. The banks were very much interested in the question of loans to be made by the Commodity Credit Corporation through the Reconstruction Finance Corporation. Only one or two loans had been made. Wheat prices were considerably below the price at which C. C. C. loans were to be made, that is, on a basis of 67¢ for No. 1 wheat at Portland and Seattle. On account of the reduction of wheat acreage under the Government allotment plan, farmers were turning to cover crops, which are being used for the feeding of livestock. In this latter connection, it was reported that there has been a substantial increase in the breeding of cattle and horses.

Yakima Valley and Upper Wenatchee Valley, Washington

The Yakima Valley is well diversified agriculturally, but conditions have not been particularly good. Influenced by the fact that there was a large carry-over of canned peaches in California last year, packs of this fruit were largely curtailed and prices were abnormally low for the fruit delivered to the canneries. Prices for pears and prunes were also unsatisfactory, the former being approximately \$8.00 a ton, and prices offered for prunes were so low that the growers in many instances left the fruit on the trees. The month of September has been unusually warm, which has had a disastrous effect on the growing apples. Where the grower would ordinarily be required to spray five or six times, the warm weather has increased the menace of the codling moth and growers have had to resort to spraying an additional three or four times. Apple production was earlier estimated to be largely in excess of last year's production, but for the above reasons estimates have had to be revised and it is difficult at this time to state the approximate damage caused by the unseasonable weather.

Hay production and prices in the Yakima Valley have been good. This is largely accounted for by the fact that pastures in western Washington dried up during the rainless summer months and dairy cattle had to be fed.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

September - 1938

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	44	7	51	1	#	None	—
New York	85	26	111	8	1,433	None	—
Philadelphia	#	#	127	3	646	2	62
Cleveland	82	23	105	10	2,620	None	—
Richmond	28	19	47	None	—	None	—
Atlanta	33	22	55	2	53	None	—
Chicago	32	18	50	20	3,197	2	600
St. Louis	47	199	246	2	350	None	—
Minneapolis	58	150	208	4	790	1	35
Kansas City	26**	73*	99	7	872	5	655
Dallas	36	3	39	None	—	None	—
San Francisco	86	13	99	10	453	None	—

* Includes 6 calls made in August.

** Includes 1 call made in August.

Number not reported.

*

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



R-328

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 1938.

SUBJECT: Forms for use during 1939.

Dear Sir:

It will be appreciated if you will advise the Board the number of copies of the forms listed below that will be required at your bank (including branches, if any) during the calendar year 1939:

<u>Form</u>	<u>Title</u>
F. R. 5	Federal Reserve notes - Daily statement of Federal Reserve Agent.
F. R. 44	Monthly report of Federal Reserve notes showing the number of each denomination and aggregate amount received, issued to bank, and returned to the Comptroller of the Currency.

Very truly yours,

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

TO ALL FEDERAL RESERVE AGENTS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

169

R-329

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 1938.

SUBJECT: Forms for use during 1939.

Dear Sir:

It will be appreciated if you will advise the Board the number of copies of the forms listed below that will be required by your bank (including branches, if any) during the calendar year 1939:

<u>Form</u>	<u>Title</u>
F. R. 34	Daily balance sheet. (Please state the number required for the head office and each branch separately, and indicate any special punching that may be desired.)
F. R. 38	Classification of discounted and purchased bills held at the end of the month.
F. R. 95	Monthly report of current earnings.
F. R. 96	Monthly report of current expenses.
F. R. 96a	Monthly report of reimbursable expenses.
F. R. 160	Monthly report of receipts and payments of paper currency.
E	Semiannual functional expense report.

Please show separately the number of copies of each form, except form F.R. 34, required if revised and the number if not revised.

Very truly yours,

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

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-330 170

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

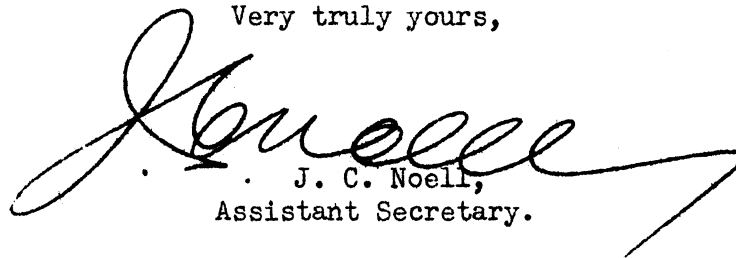
October 22, 1938.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NUBALB - Treasury Bills to be
dated October 26, 1938, and to
mature January 25, 1939.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-331

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

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

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

In September industrial production and employment continued to advance, and there was also an increase in the volume of retail trade. Building activity continued at the increased level reached in August, reflecting a large volume of awards for publicly-financed projects.

Production

Volume of industrial production increased further in September and the Board's seasonally adjusted index advanced to 90 percent of the 1923-1925 average as compared with 88 percent in August. There was a substantial rise in pig iron production and output of steel ingots continued to increase, averaging 45 percent of capacity. In the first three weeks of October activity at steel mills showed a further increase and was at a rate of about 50 percent of capacity. Plate glass production continued to advance rapidly in September. Output of lumber and cement was maintained, although at this season activity in these industries usually declines. Automobile production in September remained at about the same low rate as in August; in October, however, output

increased rapidly as most manufacturers began the assembly of new model cars. In the nondurable goods industries there were substantial increases in activity at meat-packing establishments, sugar refineries, and tire factories. Output of shoes declined somewhat. Textile production, which had been rising sharply since spring, showed little change in September, although an increase is usual. Activity increased further at silk mills but at woolen mills there was a decline, and at cotton mills output did not show the usual seasonal rise.

At mines, coal production increased considerably in September and there was also an increase in output of copper. Crude petroleum output declined as wells in Texas were shut down on both Saturdays and Sundays whereas in August only Sunday shutdowns had been in effect.

Value of construction contracts awarded, which had increased considerably in August, showed little change in September, according to figures of the F. W. Dodge Corporation. Awards for private residential building continued at the advanced level prevailing since early summer and contracts for public residential projects were also maintained following a rise in the previous month. Other public projects continued in substantial volume.

Employment

Employment and payrolls increased further between the middle of August and the middle of September, reflecting principally increases at manufacturing concerns. Employment rose sharply at automobile factories and increased moderately in other durable goods industries. At factories

producing nondurable goods there was slightly more than the usual seasonal rise in the number employed.

Distribution

Distribution of commodities to consumers showed a more than seasonal rise in September. There were increases in sales at department and variety stores and mail order sales also increased. Department store sales for the first three weeks of October showed somewhat less than the usual seasonal rise.

Freight-car loadings continued to increase in September and the first half of October, reflecting chiefly a further rise in shipments of coal and miscellaneous freight.

Commodity prices

Prices of a number of industrial raw materials, particularly hides and copper, advanced from the middle of September to the third week of October. Crude oil and gasoline prices, on the other hand, were reduced. Livestock and meat prices showed large seasonal declines in this period. In the first half of October there were sales of many finished steel products at prices below those announced for the fourth quarter, but in the third week of the month it was reported that prices had been restored to former levels.

Bank credit

During the four weeks ended October 19 there were further substantial increases in the gold stock of this country. As a result largely of these gold acquisitions and of net expenditures by the Treasury from its deposits with the Reserve banks, excess reserves of member banks increased to a total of \$3,270,000,000 on October 19.

Demand deposits at reporting member banks in 101 leading cities were also increased by the inward gold movement and on October 19 amounted to \$15,750,000,000, the largest volume ever reported by these banks. Following substantial increases during September, reflecting purchases of new issues of United States Government obligations, total loans and investments at reporting banks showed little change during October.

Money rates and bond yields

The average yield on long-term Treasury bonds declined from 2.48 percent on September 27 to 2.28 on October 21. Yields on Treasury notes and Treasury bills also declined in the period.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-332
175

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

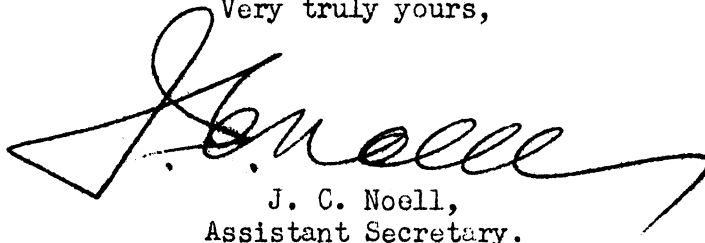
October 25, 1938.

Dear Sir:

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

NOWMETS - 7/8% Reconstruction Finance Corporation notes of Series P, to be dated November 1, 1938, and to mature November 1, 1941.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, November 1, 1938.

The following ruling will appear in the Federal Reserve
Bulletin.

Withdrawal from General Account Followed by
Other Transactions on Same Day

The second paragraph of section 3(b) of Regulation T
provides, in part, as follows:

"A transaction consisting of a withdrawal of cash or registered or exempted securities from a general account shall be permissible only on condition that * * * the transactions (including such withdrawal) on the day of such withdrawal would not create an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account or increase any such excess."

In order to insure compliance with this provision many brokers make it a practice to permit no withdrawals from the account without being assured that trading in the account has been concluded for the day. The Board, however, recently received inquiries regarding two situations in which a broker, having failed to take this precaution, permitted a withdrawal that was followed by transactions which, in combination with the withdrawal, would create or increase an excess of the adjusted debit balance of the account unless margin was deposited in the account

on the same day.

For simplicity of exposition these cases may be assumed to be alike in that at the beginning of the day the adjusted debit balance of the account exactly equalled the maximum loan value of the securities in the account, and that early in the day \$2500 of registered nonexempted securities were sold. Under present loan values of 60 per cent, this released margin in the complementary percentage of 40 per cent, i.e., \$1000. The creditor permitted the customer to withdraw this \$1000 in cash.

Later in the day other securities were purchased in the account.

In one case \$2000 of registered nonexempted securities were purchased, requiring \$800 of margin, i.e., \$200 less than the \$1000 withdrawn.

In the other case \$4000 of such securities were purchased, requiring \$1600 of margin, i.e., \$600 more than the amount withdrawn.

The question in each case related to the time within which the required margin must be obtained from the customer.

The provisions of section 3(b) quoted above clearly forbid a withdrawal of cash or securities if the withdrawal, in combination with the other transactions on the same day, would create or increase an excess of the adjusted debit balance of the account. Accordingly, in the case of the subsequent transaction requiring \$800 margin it would be necessary for the creditor to obtain the

full amount of such margin before the end of the day on which the withdrawal took place.

In the other case, in which the subsequent transaction required \$1600 margin or \$600 more than that originally withdrawn, it would be necessary to obtain, on the date of the transactions in question, the \$1000 which had been withdrawn. The remaining \$600 required could be obtained, as provided for ordinary transactions by the first paragraph of section 3(b), "as promptly as possible and in any event before the expiration of three full business days following the date of such transaction."

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, November 1, 1938.

The following ruling will appear in the Federal Reserve
Bulletin.

Broker or Dealer Who Transacts a Business in Securities
Through the Medium of a Member

Under section 7(c) of the Securities Exchange Act of 1934 "any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member" is subject to the Board's Regulation T, which relates to the extension and maintenance of credit by such persons. In this connection the Board has had occasion to consider certain questions as to what brokers or dealers "transact a business in securities through the medium of a member".

The general question of whether or not a particular broker or dealer "transacts a business in securities through the medium of a member" must turn upon all the relevant facts involved in the business of that broker or dealer. It has not seemed feasible to attempt to specify any conditions or factual situations which would prevent a broker or dealer from coming within the description.

The Board has, however, expressed the view that the mere failure to handle any business in registered securities would not,

in itself, be sufficient to keep a broker or dealer from being one who transacts a business in securities through the medium of a member. This is because the relevant language does not refer to transacting a business in registered securities but to transacting a business in securities.

Similarly, it has expressed the opinion that the fact that a firm does not carry any so-called margin accounts would not, in itself, be sufficient to keep the firm from being a broker or dealer who transacts a business in securities through the medium of a member, because the Act refers to transacting a business in securities rather than to transacting a margin business in securities.

A "broker or dealer who transacts a business in securities through the medium" of any member of a national securities exchange is subject to Regulation T to the same extent as a member. Accordingly, if a broker or dealer is one who transacts a business in securities through the medium of a member, he is subject to the regulation even as to a particular transaction which is not effected through a member.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-335

181

October 29, 1938.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

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

Treasury Bills:

NUBAMP - Treasury Bills to be dated November 2, 1938, and to mature February 1, 1939.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-336

182

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

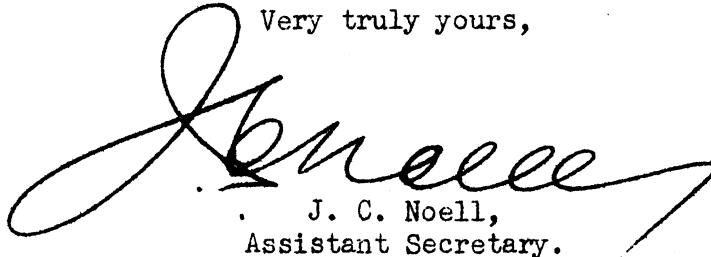
November 3, 1938.

Dear Sir:

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

NUBANO -- Treasury Bills to be dated November 9, 1938, and to mature February 8, 1939.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-337. 183

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 4, 1938.

Dear Sir:

Enclosed for your comments and suggestions are several copies of two proposed amendments to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, which have been prepared by the staff but not yet passed upon by the Board. Your comments should reach the Board of Governors if possible by Saturday, November 19, 1938. You should feel at liberty to consult confidentially with respect to these amendments anyone whom you may choose to consult, including any representatives of national securities exchanges or security dealers' associations.

The principal purpose of the proposed amendments is to further clarify and liberalize certain provisions of the regulation which relate to transactions other than margin transactions. They would amend sections 4(c) Special cash account and 4(f) Special miscellaneous account.

Changes in section 4(c) -- This section provides for handling without margin, on certain conditions, certain transactions which are defined as bona fide cash transactions. By the proposed amendment to this section, the broker who has sold securities for a customer (or the dealer who has bought securities from a customer) in a special cash account would no longer be required by the regulation to obtain the securities within a prescribed period. This change is coupled with the inclusion of a provision which makes it clear that to effect short sales for customers in the special cash account, instead of in a margin account, is not permissible.

In addition, the broker who has bought securities for (or the dealer who has sold securities to) a bank, insurance company or other customer on terms such as are common in the trade with respect to bona fide cash transactions for or with institutional customers -- "prompt delivery and payment on delivery" -- would be exempted from the requirement that he shall get payment, and consequently make

delivery, within a prescribed period. The safeguard with respect to such transactions, in lieu of a prescribed time limit, would be the proposed description of the transactions, which has been designed, after considerable study, to exclude all transactions which are not readily identifiable as "bona fide cash transactions" in the fullest sense of the term.

After these two changes, the specific time limit prescribed by section 4(c) would apply only to cases in which the customer is buying securities, and only to a limited class of these cases, with the consequence that many firms which do most of their business with institutions, carry no margin accounts, and extend very little credit, would no longer be much affected by Regulation T.

Another change in section 4(c) would require that the understanding or agreement for prompt payment that must underly any purchase by the customer that is to be made in the special cash account shall contain a reasonable safeguard against the customer's reselling the security without his first having paid for it, and still another would make it clear that the prescribed time limit does not apply to transactions in exempted securities.

Changes in section 4(f) -- One of the proposed new clauses to be added to section 4(f) would permit, under certain safeguards and with the approval of an appropriate committee of a national securities exchange, so-called "capital contribution loans". The other new clause would permit without restriction cash transactions, and certain other transactions of similar nature, between one broker (or dealer) and another. This would assume that such transactions need not be subjected, as they may be under the existing regulation, to the same restrictions as relations between each broker or dealer and his ordinary customers: for example, in case broker A (acting for one customer) makes a sale to broker B (acting for another customer), and B must obtain an extension of time within which to settle with his customer, A should not be required to get in addition an authorized extension of time for settling with B.

You will understand that the foregoing explanations, although available for use by you in consulting with others, are not for publication.

Very truly yours,



Chester Morrill,
Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

CONFIDENTIAL

R-337-a

Proposed amendment to section 4(c) of
Regulation T

Subsection (c) of section 4 of Regulation T is amended to read as follows:

(c) Special cash account. - In a special cash account a creditor may effect for or with any customer bona fide cash transactions in which --

(1) The creditor sells any security for, or purchases any security from, any customer, provided the security is already held in the account or the purchase or sale is in reliance upon an agreement which the creditor shall have accepted in good faith that the security is then owned by the customer or his principal and is to be promptly deposited in the account;

(2) The creditor purchases any security for, or sells any security to, any customer, provided funds sufficient for the purpose are already held in the account;

(3) The creditor purchases any security for, or sells any security to, any bank, insurance company or other customer whose usual practice in purchasing securities is to make full cash payment therefor against delivery of the securities to him and to make such payment without in the meantime selling the securities or securing his obligation to the creditor by any collateral in addition to the securities being so purchased, provided the creditor effects the purchase or sale pursuant to a bona fide understanding by the creditor that he is to make delivery of the security to the customer as promptly as practicable in accordance with the ordinary usage of the trade and that the customer will make full cash payment for the security in accordance with his usual practice;

(4) The creditor effects any other purchase of any security for, or any other sale of any security to, any customer, provided the creditor effects the purchase or sale in reliance upon an agreement which the creditor shall have accepted in good faith that the customer will promptly make full cash payment for the security and that the customer does not contemplate selling the security prior to making such payment.

Except as otherwise provided in this section 4(c), in case a customer does not make full cash payment for a security (other than an exempted security) purchased by him pursuant to clause (4) of this section 4(c) within seven days after the date on which the security was purchased, the creditor shall promptly cancel or otherwise liquidate the transaction or the unsettled portion thereof.

If any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, of which exchange the creditor is a member or through which his transactions are effected, is satisfied that the creditor is acting in good faith in making the application, that the application relates to a bona fide cash transaction, and that exceptional circumstances warrant such action, such committee, on application of the creditor, may (A) extend the period specified in the preceding paragraph for one or more limited periods commensurate with the circumstances, or (B) in the case of the purchase of a registered or exempted security which has been effected by the customer in the account, authorize the transfer of the transaction to a general account or special omnibus account and the completion of the transaction pursuant to the provisions of this regulation relating to such accounts.

The days specified in this section 4(c) are calendar days, but if the last day of the period specified herein is a Saturday, Sunday, or holiday, such period shall be considered to end on the next full business day. For the purposes of this section 4(c), a creditor may, at his option, disregard any sum due by the customer not exceeding \$50.

CONFIDENTIAL

R-337-b

Proposed amendment to section 4(f) of
Regulation T

Subsection (f) of section 4 of Regulation T is amended by inserting the following clauses after clause (1) of said subsection and renumbering the succeeding clauses accordingly:

(2) With the approval of any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, make and maintain loans to or for any partner of a firm which is a member of such exchange to enable such partner to make a contribution of capital to such firm, provided the committee is satisfied in each instance (A) that the loan is not in the ordinary course of the lender's business and that neither the borrower nor his firm would be considered to be a customer of the lender or his firm according to the ordinary usage of the trade, and (B) that in view of the terms of the loan and other attendant circumstances it will not be detrimental either to the soundness of the securities business or to the best interests of persons having financial relations with the firm for the firm to be supplied with such capital in such manner;

(3) Purchase any security from any broker or dealer, or sell any security to any broker or dealer, provided the creditor acting in good faith purchases or sells the security for delivery, against full payment of the purchase price, as promptly as practicable in accordance with the ordinary usage of the trade;



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

188

R-338

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 7, 1938.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes from October 3 to October 31, 1938.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-338-a

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

Federal Reserve Notes, Series 1934.

	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston	66,000	12,000	78,000	\$ 7,176.00
New York	188,000	20,000	208,000	19,136.00
Philadelphia	74,000	20,000	94,000	8,648.00
Cleveland	50,000	19,000	69,000	6,348.00
Richmond	44,000	22,000	66,000	6,072.00
Atlanta	24,000	6,000	30,000	2,760.00
Chicago	124,000	35,000	159,000	14,628.00
St. Louis	34,000	7,000	41,000	3,772.00
Minneapolis	19,000	6,000	25,000	2,300.00
Kansas City	24,000	8,000	32,000	2,944.00
Dallas	21,000	6,000	27,000	2,484.00
San Francisco	<u>50,000</u>	<u>16,000</u>	<u>66,000</u>	<u>6,072.00</u>
	<u>718,000</u>	<u>177,000</u>	<u>895,000</u>	<u>\$82,340.00</u>

895,000 sheets, @ \$92.00 per M \$82,340.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Wednesday, November 9, 1938.

The following ruling will appear in the Federal Reserve Bulletin.

Guarantee of Account by Special Partner of Member Firm

Section 6(c) of Regulation T provides that a guarantee of a general account may not be given effect for the purposes of the regulation if the guarantor is a "creditor".

It was pointed out at page 90 of the February 1938 Federal Reserve Bulletin that the term "creditor" is defined in section 2(b) of the regulation to include, among others, every member of a national securities exchange, and the term "member" is defined in section 3(a)(3) of the Securities Exchange Act of 1934 to include, among others, "any firm transacting a business as broker or dealer of which a member is a partner, and any partner of any such firm." It was stated there, accordingly, that a partner of such a member firm is a creditor within the meaning of the provision regardless of whether or not he holds an exchange membership, and that a guarantee executed by such a partner may not be given effect under section 6(c) of the regulation.

In reply to a recent inquiry, the Board stated that this restriction applies to a guarantee executed by a special partner of such a firm as well as to a guarantee executed by a general partner.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers
of Thursday, November 10, 1938.

November 9, 1938.

The Board believes that the principles of Section 8 of the Clayton Act, which relate to interlocking bank directorates, are in the public interest and should be applied to all classes of banks. The law is now discriminatory in that it applies only to cases involving member banks of the Federal Reserve System or private banks. The Board does not believe that there should be discrimination in any respect among classes of banks subject to Federal authority.

In view of the fact that less than a month will elapse between the convening of the new Congress and February 1, 1939, on which date certain existing relationships would terminate, the Board has exercised its discretion under the law, as to such relationships involving not more than two banks, to extend this time to August 1, 1939. This action was taken for the purpose of calling the matter to the attention of Congress when it convenes, with a recommendation that the existing discrimination between member banks and non-member banking institutions be removed so that the provisions of the law will apply alike to all banks under Federal authority.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-341

192

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

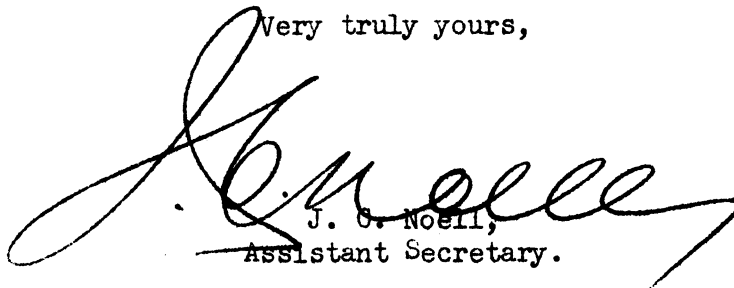
November 14, 1938.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NUBARK - Treasury Bills to be
dated November 16, 1938, and to
mature February 15, 1939.

Very truly yours,



J. G. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-342 193

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 17, 1938.

Dear Sir:

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

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

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-342-a

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

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses(1)	Expenses Paid by Banks and Board(2)	Payable to Board of Governors
Boston	22,385	583	22,968	\$ 512.14	\$ 287.81	\$ 224.33
New York	65,864	-	65,864	1,468.65	1,018.92	449.73
Philadelphia	18,515	590	19,105	426.01	245.80	180.21
Cleveland	30,371	592	30,963	690.42	244.58	445.84
Richmond	24,109	582	24,691	550.56	201.66	348.90
Atlanta	41,460	582	42,042	937.46	303.71	633.75
Chicago	57,889	891	58,780	1,310.69	1,216.74	93.95
St. Louis	41,200	582	41,782	931.66	240.81	690.85
Minneapolis	18,495	580	19,075	425.34	157.32	268.02
Kansas City	45,026	582	45,608	1,016.97	274.01	742.96
Dallas	34,577	582	35,159	783.98	267.85	516.13
San Francisco	43,785	735	44,520	992.71	376.41	616.30
Board of Governors	269,110	-	269,110	6,000.66	11,211.63	-
Total	712,786	6,881	719,667	\$16,047.25	\$16,047.25	\$5,210.97

(1) Based on cost per word (\$.02229816) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,632.29) and wire rental (\$9,579.34). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-343 195

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 18, 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 October in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

November 15, 1938.

To: The Board of Governors
From: Mr. Hammond, Division
of Bank Operations

Subject: Summary of Bank
Relations Reports

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of October and excerpts therefrom will be found on the following pages. A table showing for all twelve banks the number of visits made, meetings attended, and addresses delivered has also been prepared and follows the quotations.

The reports reflect the difficult operating conditions with which large numbers of banks are faced - especially the small ones. Uncertainties as to the proper investment policy, slack demand for loans, and competition of government lending agencies are perhaps most frequently mentioned. The pressure to augment income by charging exchange is commented upon by several Reserve banks, and it is indicated that a very considerable number of banks feel driven to it rather than desiring it. Feeling between par and non-par banks appears to be rather strong in the St. Louis district. There is considerable interest in repealing the requirement that all insured banks with deposits of \$1,000,000 or more become members of the Federal Reserve System by 1942. In certain agricultural regions both in the east and in the west there seems to be an increased demand for loans and in the west particularly a good many banks are expecting to have to rediscount this winter. In urban and industrial regions interest in mortgages appears to be growing and banks situated where desirable mortgages are not available locally are buying them elsewhere.

There is frequent mention in the reports of abundant crops and relatively unsatisfactory prices and of the extent to which farmers are relying on government loans against their products.

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

BOSTON

Twenty-one member banks and one nonmember bank, all located in small communities in Massachusetts and northern Vermont and New Hampshire were visited during the latter part of October.

Most of the towns visited are retail trading centers in communities devoted principally to farming and dairying. In a few of the towns one or two small factories or mills are located manufacturing shoes, woollens or paper, and operating from four to six days a week. Retail trade was reported to be only fair.

System policies and operations were not discussed at any of the banks and the only general complaint heard was that there is not sufficient demand for bank funds. Few of the banks visited had more than fifty per cent of available funds in loans. In every case the investment account showed appreciation. The lending rate is generally six per cent with a few well collateralized loans made at from 4-1/2 to 5%. Loans to towns range from one to four per cent, the majority of loans carrying the latter rate.

NEW YORK

Allegany, Livingston and Wyoming Counties

Deposits reflect a decrease of 3.5 per cent as compared to a year ago, and now aggregate \$33,880,000, of which 66 per cent are time accounts. This decline in deposits is attributed by some bankers to the economic condition of the farmers, and other bank officers mention that the lower rate which some institutions are paying on interest accounts has been responsible for some shifting of deposits to banks paying a higher rate. The managements of several banks are giving consideration to lowering the rate in the near future, but at the present time only seven banks in this group are paying 1½ per cent, twenty-eight are paying 2 per cent, and a small private bank pays no interest on deposits.

The demand for loans for commercial and agricultural purposes continues light, although several banks located in communities where various state institutions are situated have made a number of loans pursuant to Title II of the National Housing Act to employees of these institutions. Total loans, including mortgages, for all banks now amount to \$14,662,000. The officers of several banks say they have considered opening personal loan departments, but owing to the lack of diversification of industries in their particular communities they have hesitated to embark on this phase of loaning. Only one bank in the three counties is making personal loans, this being a small institution situated near a moderate-sized industrial center. The officers of this bank report a demand for loans larger than their resources will permit them to satisfy. Collections are said to be fair, although at the low prices prevailing for farm products it is not expected any material reductions can be made on slow loans this fall.

Sullivan County

Officers of six banks report a very light demand for accommodation, while three characterize it as fair or improving, and only two as being good. Loan and discount totals are about 8 per cent higher than they were a year ago but this is due, in some measure at least, to the poor summer season which has been reflected in failure to obtain loan payments. The prevailing rate is 6 per cent, exceptions being made by

some banks only in the case of loans to municipalities or school districts. The field for loans under the National Housing Act is somewhat limited in this county since the income of a large part of its population is confined to a two month, or even a six week, period. Nevertheless, eight banks have negotiated some of these loans and those not participating say that all good applicants for this type of accommodation have been taken care of through their ordinary lending channels.

Westchester County

A number of bankers commented on the improved earning power of their banks due largely to granting life insurance, personal and Federal Housing Administration loans. Loans and discounts now aggregate \$53,700,000 reflecting an increase of \$4,800,000 since January 1. A number of banks have taken on fairly large amounts of loans secured by life insurance policies, at a $3\frac{1}{2}$ to 4 per cent rate. Personal loans total \$1,500,000. The banks in the county have made over \$1,000,000 in home repair loans under the new provisions of Title I of the National Housing Act and about twenty-four institutions have granted or purchased Title II Federal Housing Administration mortgages. A member bank in Bronxville has granted and sold over \$1,000,000 of insured mortgages, many of these applications having been referred to it by other banks in the county which are not interested in handling Title II mortgages. A member in Tarrytown (deposits now \$3,000,000) continues to lead all other banks in the district in making Federal Housing Administration mortgage loans. Since the first of the year it has more than doubled the amount granted, the total being over \$12,000,000, most of which has been sold to life insurance companies, the Comptroller of the State of New York, and other banks. Almost all of the mortgages taken by this bank since January are on a 90 per cent basis. The treasurer of this bank estimates that earnings this year will increase to an amount about equal to its \$100,000 common capital. In an endeavor to increase its earning power, a national bank with deposits of \$570,000 lent \$280,000 on Title II mortgages through an arrangement with a broker, but because of the delay in selling them to an insurance company has had to borrow \$170,000 until the sale is completed.

Business conditions in this area have improved this fall largely as a result of the increased employment and payrolls in the industrial plants, most of which are centered in the section along the Hudson River.

Bergen County, New Jersey

The Bergen County Chamber of Commerce reports that business in general, both manufacturing and merchandising, in this area is showing a slight upward trend. The principal industrial areas in Bergen County are in the southern part along the Hudson River around Edgewater and in the Passaic Valley at Garfield and Lodi.

Monmouth County, New Jersey

The summer season along the shore was on the whole a rather poor one on account of the long rainy spell during the last three weeks in July, although some sections fared much better than others.

In the agricultural sections the prices being obtained for potatoes are discouraging. The crop yield is said to be high, many farmers obtaining as much as 200 to 220 hundred pound sacks to the acre. The price now being obtained is 95 cents per hundredweight although it was as low as 65 cents for early potatoes during most of the month of August. Because of current low prices many farmers are storing their potatoes as it is anticipated that prices will be higher later on, due to a short crop said to exist in other potato growing areas, including the State of Maine. Some bank officers are endeavoring to induce their farmer borrowers to sell now rather than gamble on the prospect of higher prices. It is pointed out that a good deal of shrinkage takes place in potatoes which are stored. In the north central part of the county where there is considerable raising of garden truck and fruit, the truckers did fairly well with their early vegetables but the September hurricane practically destroyed the tomatoes, peppers, and other late crops. The peach crop was nearly picked before the storm but quite heavy damage was done to apples.

PHILADELPHIA

The area visited contains some of the most fertile farm land in Pennsylvania as well as some mountainous regions where a high degree of cultivation is not possible. Dairying is the chief agricultural activity, while wheat, corn, and fruit are the chief crops. Yields of all crops were good this year but prices for wheat and corn were insufficient to net the farmer a profit. Prices paid for raw milk were reduced recently leaving fruit and poultry as about the only sources from which the farmer may be able to make a profit. Because of the good fruit yield in this area in the face of a shortage elsewhere, good prices were received for that sold. Many growers, however, are storing apples in anticipation of even better prices. Cannerys are not buying so heavily this year as they still have large inventories from last year. A plentiful supply of grain at a low price will benefit the farmers who fatten cattle for slaughter by enabling them to meet lower beef prices.

Industrial activity, while considerably below the level of a year ago, has shown improvement during recent months and is expected to show continued improvement. Bankers base this assumption upon increased orders from abroad for machinery, greater activity in the airplane and automotive industries, and the enlargement of existing plants or the establishment of new concerns within the area. Railroad operations have increased, causing an increase in employment. The movement

of coal which occurs during the fall and winter months should cause a continuance of this upward trend in railroad activity.

The maximum allowable rate of $2\frac{1}{2}$ per cent is paid at 78 banks, 36 pay but 2 per cent and one of these institutions pays but $1\frac{1}{2}$ per cent on amounts in excess of \$5,000. Loaning rates vary. While the majority of the banks maintain the 6 per cent rate, a number will grant a rate as low as 5 per cent on good loans secured by mortgages or marketable collateral. The amount of the loan also is a factor in determining the rate. Small loans, because of the cost of handling them, bear the 6 per cent rate but those above a certain fixed amount, usually \$500 or \$1,000, will command a $5\frac{1}{3}$ per cent or even a 5 per cent rate at many institutions.

The real estate market continues to offer a large number of good properties at attractive prices but there is a dearth of buyers. New houses appear to sell more rapidly than old houses and many banks have a real problem in the amount of other real estate owned.

While the great majority of the banks report a depreciation in investments, they also report a marked improvement during recent months. The quality of some of the accounts is poor, and appears not to have been improved materially in recent years but it is believed that most of the banks are giving this matter close attention.

Credit demand is light but shows some evidence of improvement. The majority of the farmers in this section are self sustaining, but the poor returns this year may result in a somewhat stronger demand for credit during the coming months, and some banks may have need for reserve bank credit.

Deposits have increased at nearly all of the banks visited. In a number of instances, however, this increase followed declines reported at the time of the previous visit.

Only limited use is being made of F. H. A. facilities as the residents of many communities are unable to qualify. Some banks, however, are purchasing mortgages created elsewhere.

W. P. A. and other relief projects have increased somewhat during the past year because of increased unemployment and have become very important sources of income in several of the counties visited. Because of the volume of checks created by these expenditures, one banker has instituted a charge for cashing checks for non-customers regardless of whether or not the checks are issued by Federal or State departments.

CLEVELAND

There is continued complaint of the shortage of desirable borrowers

notwithstanding that there is evidenced a disposition on the part of many bankers to permit bond portfolios to run off and to concentrate more on local loans. Generally speaking, banks are increasing holdings of F. H. A. mortgages, and many institutions not hitherto interested in this type of loan are now making them -- in some cases in substantial amounts. On the occasion of a recent visit to a member national bank the remark was made that on the previous day the bank had completed a real estate loan -- the first one in the history of a fifty year old bank.

The Wages and Hour Law is causing some concern, based upon the working-hour provisions rather than the wage provisions. Some banks are adopting earlier closing hours, and in some of the smaller banks official titles are being given to certain employees to place them in the excepted classes.

RICHMOND

Virginia (Shenandoah Valley)

Of the counties included in this report all but Rappahannock are members of a regional clearing house association which has been instrumental in establishing service charges, though it is not clear that all banks have carried out the schedule agreed upon. With few exceptions time deposits exceed demand deposits and carry a rate of $2\frac{1}{2}$ per cent. Bankers appear to feel that this rate is justified so long as they charge 6 per cent for the bulk of their local loans. Rates as low as $4\frac{1}{2}$ per cent are made on real estate and there appears to be a favorable attitude towards FHA loans on a 5 per cent basis. The majority of banks show an increase of loans relative to the first half of 1938 and one year ago, and, with some exceptions, deposits have expanded slightly. Investments show very little change, increases in some banks being about equal to the decreases of others.

Agriculture in these counties is well diversified. Beef cattle and dairying contribute materially to the farm income, but this is supplemented by apple production, poultry growing, and wheat farming. Beef cattle are bringing around $4\frac{1}{4}$ cents, a price somewhat lower than that of 1937, but eggs are bringing about 30 cents, which is 20 per cent higher than last year's price. The apple crop will equal the long-run average but the superior quality has meant higher prices than in 1937 by as much as 35 per cent for certain varieties. The abundant hay and grain crops have proved favorable to the livestock industry.

A large viscose plant at Front Royal (Warren County) should be completed by the spring of 1939. The first unit is expected to employ from 3,500 to 6,000. Construction has given employment to workers within a radius of 50 miles. Concentration of labor at the plant will be

discouraged and workers will be encouraged to commute. When the \$10,000,000 plant recently started at Pearisburg, Virginia, is completed, there will be ten large rayon yarn plants in the Fifth District. The tourist traffic stimulated by the Skyline Drive has contributed much to local business throughout much of this region. Small factories, mills, and canneries have prospered and contributed materially to what appears to be a generally prosperous condition.

Virginia (Peninsula Counties)

In the region between the York and the James, the counties of James City, York, Elizabeth City, and Warwick give every indication of favorable business conditions. Loans and deposits of banks show small variation seasonally and are now approximately at the levels of one year ago. Banks are making most of their local loans at 6 per cent, with a rate of 5 per cent in some instances. Real estate loans form an important part of earning assets. Time deposits generally exceed demand deposits by a considerable margin and most banks are paying $2\frac{1}{2}$ per cent on the former. This rate seems to be regarded as excessive, but competitive conditions appear to make a reduction impossible. Notwithstanding this situation, service charges are not well developed.

The chief business in James City and York Counties is the tourist traffic. At Williamsburg (James City County) the Rockefeller Foundation has expended about \$18,000,000 in restoration work. In addition, the College of William and Mary and the State Hospital have brought considerable business to banks and others. Yorktown (York County) also enjoys a large tourist business. Elizabeth City County has benefitted materially from the activity of shipyards at Newport News and by construction at nearby military posts. Warwick County has profited most from shipbuilding at Newport News, where accumulated orders amount to about \$55,000,000. About 5,300 are now employed on a full-time basis and 700 additional on a four-day basis. The number employed will probably increase to 7,000 as work progresses. Payrolls of the yards now come to about \$170,000 weekly.

The combination of tourist business, shipbuilding, government posts, fisheries, and truck farming has made this region relatively prosperous and most banks will realize fair net profits for the year.

North Carolina (Eastern Central)

Banks in this region (Cumberland, Harnett, Johnston, Wayne, and Sampson Counties) show some expansion of deposits since the first half of the year, but the volume is still materially lower than for the same time last year. Demand deposits exceed time deposits in volume and from 1 per cent to $2\frac{1}{2}$ per cent is paid on the latter. The actual rate depends upon the nature and intensity of competition among local banks. The demand for crop loans has been somewhat less than "normal" due to the diminished

volume and value of the cotton crop. Rates hover around 6 per cent but are as low as 3 per cent on some business paper. There is some competition from outside banks which offer money at 4 per cent, and an occasional sharp complaint of PCA competition. Banks contend that no safe loans are rejected and they resent implications that bank credit should be made more available, since, it is held, that cannot be done without adopting lax standards. Investments change but little in volume and there is a definite tendency to concentrate on Federal, State, and municipal bonds and to move out of corporate issues.

Nonmember banks in this region show a reluctance to consider membership in the Federal Reserve System. They contend that they enjoy F.D.I.C. protection and have exchange revenues in addition; that exchange revenues make it possible for banks to operate where, otherwise, there could be none; that exchange revenues may come to as much as 15 to 20 per cent on the capital; that they constitute the "margin of net profit" for many banks; that there is no need of borrowing and, hence, no need of rediscount facilities; that they have large holdings of Federal bonds upon which they can borrow from correspondents; that if all banks were made compulsory members, they would, if not permitted to receive interest on balances with correspondents to offset loss of exchange revenues, become mere "feeders" of city banks, which have a much larger opportunity to employ funds; that North Carolina law permits loans of 20 per cent of capital and surplus to one interest as against 10 per cent for member banks; that compulsory membership for country non-member banks is improbable because of the political influence which they enjoy.

Cotton and tobacco are the chief money crops in this region, though the livestock industry appears to be growing in importance. Both the yield and acreage of cotton are below 1937 levels, while prices are somewhat lower. Type 12, Eastern North Carolina Flue-Cured, sales averaged \$23.58 per hundred pounds to October 29, which is somewhat lower than the 1937 average of \$29.73 for October. There has been much complaint among farmers respecting crop control and marketing quotas, and in some of these counties a majority of the farmers would not again favor these methods. They feel that prices have not been raised commensurately with the restrictions.

ATLANTA

Northwest Alabama

The principal cash crop in this territory is cotton. In the western portion of the territory mentioned, the crop was found to be running from 35% to 50% of last year's yield on account of damage in the early Spring by rains and boll weevil, there being spots where replanting was necessary and where there was excess foliage. In one county it

is claimed that some of the farmers hardly made 60% of their allotment. Even with the short crop there were no reports that an excessive number of loans would have to be carried over.

Further upstate in the Tennessee Valley region a better trade activity is apparent, the cotton crop seemingly having suffered less. The cotton in the whole territory mentioned is extra white, of high grade and comparatively long staple for this region.

With a cash price of nearly 9¢ for the high grade crop that has been made in this section, plus subsidies, the cotton loan is apparently not attractive and most of the banks report slow movement of the cotton into the loan, the aggregate of their loans to cotton producers not having come up to expectations, although quite a bit of cotton is as yet to be handled.

Georgia

The Federal Reserve Bank was represented at the October meetings of seven zones of the Georgia Bankers Association.

Visits were made to seventeen member and eleven non-member banks located in these zones. At each of these zone meetings emphasis was laid on banker - farmer cooperation and the profitable production of pork. The importance of exchange charges on incoming cash letters as a source of revenue to the small country bank was another subject which was discussed at each of the meetings, and it is felt that the continued discussion of this subject may tend to dissatisfaction on the part of some of the smaller banks with their membership in the Federal Reserve System. Such discussion makes it difficult to interest nonmember banks in membership. At one of the meetings, the President of the Georgia Bankers Association stated that a committee of the Association had been appointed to work for the repeal of the law which would require membership in the System of certain State banks in 1942.

The level of deposits of the banks visited compares favorably with that of a year ago. The yield of this year's cotton crop was reported as being between 50% and 60% of normal. Yields of tobacco and peanuts were very good and satisfactory prices were obtained.

Mississippi Gulf Coast

At Biloxi the condition of business is considered normal for this season of the year. This resort city enjoyed a good tourist trade during the summer and it was stated that the hotels are receiving a satisfactory number of requests for the winter season. The banks at Biloxi have made a large number of F. H. A. loans and are enthusiastic over this type of asset. The shrimp catches have been good so far this season and the packing plants have been operating at capacity.

An unusually good tourist season is expected at Gulfport during the coming winter.

North Central Tennessee

Due to unusually heavy rainfall in the summer tobacco has suffered from what is known as "fire" or "rust" and while the actual damage due to rust has not been great it has forced the farmer to cut his tobacco green in order to lessen the damage, as a consequence of which the tobacco was of inferior grade. This section has had a bumper crop of hay, corn and other small grains. Conditions for growing livestock have also been favorable.

In the section around Portland an excellent strawberry crop last season sold for approximately \$500,000.00, and the prospect for next season's crop is good.

Members of the Nashville Clearing House Association have recently begun to charge their country correspondent banks on a per item basis for handling their clearings. As a result of the imposition of this charge several of the member banks in the Nashville Zone have begun to send their cash items to the Nashville Branch to a greater extent than heretofore, and certain nonmember banks are showing an interest in membership in the System.

CHICAGO

Several group meetings were attended in Indiana and Michigan, the principal topics discussed being Federal banking laws, bank investments, and local taxation.

Banks show a tendency to dispose of the corporate bonds held in their portfolios and to substitute municipals and Governments. There is some slight increase in loans in the agricultural section, due to feeder demand. During the first fifteen days of October, one bank made 81 loans, aggregating \$114,000, of the type usually handled by the Production Credit Corporation. One institution that has been very successful in making receivers' loans to closed banks is now exploring other means of augmenting its income, as this source has been exhausted. The demand for installment loans and mortgage loans has improved materially. Bankers are apparently taking more interest in Federal Housing Administration loans. Indiana, Illinois, and Iowa will have a large corn crop in 1938, and it is expected that much of this will be sealed under Government loans and that the banks throughout the district will carry many of these loans under a repurchase agreement with the Commodity Credit Corporation. The return on such loans in the past has been approximately 2-1/2 per cent. The amount to be loaned on the 1938 crop

has not been definitely fixed, but it is anticipated that it will be between 57 and 61 cents per bushel.

The Government is in the process of resealing the 1937 corn crop remaining on the farms. The handling of all 1937 corn loans in the various Federal Reserve districts has now been concentrated at the Federal Reserve Bank of Chicago. It is estimated that some 30,000,000 bushels of the 1937 crop will be released to the Commodity Credit Corporation to satisfy outstanding loans and that approximately 15,000,000 bushels will be resealed, the grower who reseals his corn receiving the difference between 50 and 57 cents per bushel. The corn released to the Commodity Credit Corporation is being stored principally in terminal warehouses along the Missouri and Mississippi rivers and in Chicago. In some localities where the quantity involved is small, the Corporation is selling on the local market.

Considerable progress has been made in the furniture industry. Figures recently obtained show that since June there has been a continuous improvement with each succeeding month, and that shipments, pay-rolls, and number of employees in September exceeded those in August. The outlook appears to be favorable for the next several months in view of the present building situation.

Reports from Detroit indicate considerable optimism in regard to the automobile industry, particularly for the near future. There is apparently a more hopeful attitude about the labor situation, one manufacturer stating that his company is getting much better efficiency from labor than for some years. Building in this area is exceeding that of any of the past four or five years. Summing up the situation in Detroit, the statements of those interviewed were optimistic concerning the near future, but were tempered with an element of conservatism and caution.

One nonmember bank with deposits of \$850,000 is converting its assets into cash and has gone into liquidation, stating that in view of the difficulty of making earnings it would prefer to pay off its depositors.

Several bankers have been invited to talk on banking subjects over local radio hookups, and in these instances the Federal Reserve System has received favorable comment.

ST. LOUIS

During the month our officers and field representatives visited 317 banks, of which 211 were in Missouri, 31 in Kentucky, 31 in Mississippi, 16 in Arkansas, and 2 in Tennessee.

With fall shipments of feeder livestock arriving in many rural communities, an increased demand for local loans is reported. In most

cases advances for agricultural purposes are made with an interest rate of 5% to 8%. Demand and time deposits show further increases in many instances. The common rate of interest on time deposits continues to be 1 to 2 per cent per annum.

Stockholders of member and nonmember State banks in Illinois are greatly concerned about possible failure to ratify the proposed Constitutional Amendment to remove the double liability of stockholders of State banks at the November election. Conversion from State to national banks will be the ultimate outcome in many instances if this amendment fails to carry.

From all indications, it appears that one State member is going to withdraw from membership. This decision is based on two factors: one a bill for \$400 received from a national bank correspondent covering the handling of the State member's account for the last three months; the other, the loss of revenue from exchange charges. It seems that the local credit association carries its account with this State member and while a large percentage of the \$400 carrying charge was made on checks deposited by this association, it refuses absolutely to pay any service charge. The association's account has been solicited by other banks in the country and the member bank does not want to give it up because of the loss of deposits during the summer months and the loss of prestige. The president of the bank estimates a revenue from exchange loss of \$5,000 per year and states that under present conditions, the bank could not afford to sacrifice this income.

The cashier of a small Missouri nonmember is opposed to banks going off the par list as he feels that they are obtaining revenue from the wrong source. He further believes all banks should be compelled to join the System and that they should be examined by only one authority. Officers of another small Missouri nonmember stated that they had been encouraged to go off the par list. They appeared to have a deep conviction, however, that their customers' checks should be circulated at par.

A nonmember bank officer complained of the practice followed by banks in a nearby town, which is on the par list, whereby customers of his bank are not subjected to service charges when doing business with the par banks. He feels that all banks should be compelled to adopt a uniform schedule of charges. He is aware that the condition mentioned might not exist if his bank were on the par list.

Officers of one nonmember feel that their bank should make all loans in the community which can be made on a proper basis, particularly sound loans on real estate, even though not amortized, provided that the payments which would normally amortize a loan are put back into improvements as such expenditures improve the business of those

providing materials. The bank has a good cash position, large holdings of Governments and no past due loans. It has insufficient capital to become a member and in discussing membership, the officers stated that the red tape caused by additional reports would be troublesome, which impressions were of course corrected. Another nonmember officer was of the same opinion and our representatives endeavored to correct his erroneous impressions. They asked him to discuss membership with officers of the State members, which he expects to visit in the near future.

Benefits of membership were fully discussed with a Missouri nonmember cashier who was pleased to learn that charges were no longer being made for examinations by Federal Reserve examiners.

Numerous requests for loans are being received by the cashier of a Missouri nonmember bank but he is reluctant to make these advances for fear of criticism by examiners. Various lines were criticized at a recent examination and this cashier is not inclined to change his policy regarding loans. He further feels that agricultural lending agencies are in direct competition with country banks, but he declines to meet the interest rates available through these agencies. The cashier of another Missouri nonmember which depends primarily on service charges for its income is reluctant to make loans, fearing criticism by examiners. He was evidently carrying a number of past due loans.

The president of a small Mississippi nonmember mentioned his experience in buying some Treasury Bills. He ordered \$30,000 very short-term bills from a bond house in Memphis. Figuring the commission on buying and selling and the expense of a trip to Memphis, the net result of the transaction was a loss of \$52. He has lost interest in short-term Governments and now invests in longer term bonds which he expects to hold until maturity.

MINNEAPOLIS

No detailed reports of visits during October have been received from Minneapolis.

KANSAS CITY

Among state banks that are eligible for membership, a surprisingly large number seem interested but certain obstacles stand in the way. A number of such banks find it necessary to improve their condition before membership can be considered. Until the law is changed, a capital requirement based upon population will keep many good prospects permanently out of the System. In a few cases, bankers in Nebraska

that stay out of the System in order to make exchange charges were free to admit that exchange charges not only may be but possibly have been carried too far.

A number of cases were found where country banks had sold Government securities rather freely during the war scare. This nervousness, however, has virtually disappeared.

In addition to the cases reported last month, more instances were found of bankers' concern about the rural population moving off the land. A Kansas banker stated that one-third of the population of his county had left the county in the past five years and that 60 per cent of those remaining are either on relief, working on WPA projects, or have been re-financed through the Farm Security Administration. From Oklahoma come also many reports of tenant farmers moving off the land.

The comment is well nigh universal that livestock prices are the bright spot in the farm situation. Those who were fortunate enough to have livestock are in the best condition among the rural population. High livestock prices, however, are complicating feeding operations as few bankers are advising their customers to buy feeder cattle at present prices.

Bankers in many parts of the District are greatly concerned about the limited number of livestock in their communities. It is the general belief that there is only about one-third the number that is needed. The feeling is growing rapidly that, in certain sections of the District especially, farm conditions cannot become satisfactory until corn and livestock return to somewhat near their pre-drouth conditions. A great deal of thought is being given to this problem by many other people as well as bankers. In eastern Nebraska and Kansas, where the hog population is little more than 30 per cent of what it was four years ago, there is some discussion of the feasibility of cooperative movements to stimulate hog production. Farmers without hogs are willing and anxious to build up their numbers but need money to buy brood sows.

In the case of many country banks there is a definite decrease in deposits and a tendency for loans to increase. Banks in some communities have all the loans they wish while in other regions it is said there is little demand for funds. In some places especially, there appears to be an active demand for money to purchase cows and heifers and hogs and sheep. Some banks report a satisfactory experience with automobile and implement paper, while in other cases it is said this paper is not liquidating well and that it is necessary to force farmers to sell wheat to meet automobile and implement payments.

A good many banks expect to rediscount before another harvest. Few country banks appear to be making Commodity Credit Corporation

wheat loans and there is a tendency to send the ones they do make to their city correspondents.

In irrigated regions of Colorado, the beet crop is said to average about sixteen tons to the acre which is regarded as satisfactory. In some cases the sugar content is reported as normal but in a good many instances it is said to be low. The potato crop in irrigated regions is only fair but the alfalfa hay crop is good. In fact, bankers from nearly every part of the Tenth District report an abundance of feed but complain bitterly that there is little to feed it to.

DALLAS

Central Texas

Generally speaking the banks in this section are well satisfied with their relations with the Federal Reserve Bank and with existing laws, regulations and policies. A few renewed previous complaints in regard to Production Credit Associations. The president of one bank whose earnings have been rather seriously affected by competition from these agencies expressed the view that the government should either require them to confine their advances to people who are unable to obtain accommodations from banks, or should take over the small member banks and make satisfactory adjustments with their stockholders covering their capital investments.

Another member banker complained that the local P. C. A., in an effort to win desirable borrowing accounts away from the bank, had gone to the length of staging big barbecues and inviting the best customers of the bank to attend them, using those occasions for the purpose of soliciting their accounts.

Further evidences were found of widespread discontent among farmers in connection with the results of the government's acreage control program this year. However, the recent distribution of government subsidy checks has tended to allay their grumbling to some extent.

The cotton crop in this area is at least one-third smaller than last year's production, due partly to unfavorable growing conditions and partly to the curtailment of acreage. In those communities which have adequate storage facilities from 75 per cent to 90 per cent of the crop has been placed in the loan. Elsewhere the bulk of the crop has been marketed. On the whole, despite the distribution of subsidies, farm income in Central Texas for the year 1938 will show a severe decline by comparison with last year, and the producers appear to be in for a hard winter from a financial point of view.

South Texas

Much the same conditions exist in the territory served by the fourteen South Texas banks visited by our representative as are pictured above with respect to Central Texas. Continued criticism of the 1938 farm program is being made by the farmers, and many of them are turning to livestock as a source of revenue in lieu of cotton. Some of the banks interviewed are gradually getting away from the practice of financing cotton farmers who do not diversify their productive efforts.

A recent survey made in this section of Texas covering 4,300 farmers showed that approximately ten per cent of them are on local or federal government payrolls. The group produced 17,000 bales of cotton this year, or an average of about four bales each. Our representative was told that the ten per cent who are receiving salaries from government sources are influencing the other ninety per cent to go along with the government's acreage control program for another year.

SAN FRANCISCOSiskiyou County, California

For the most part, conditions in the lumber, stock raising, dairying, and agricultural interests are satisfactory in so far as production is concerned. Feed conditions have been good, and large crops of hay, wheat, and potatoes are being harvested, but prices are low, resulting in little or no profit.

There has been considerable development in placer mining, with dredgers working over both old diggings and unworked land. In the latter case, much of the land has been used for agricultural purposes and is being left by the dredgers in a condition which will make it useless for any purpose hereafter.

Eastern Washington

Several banks between Spokane and Pullman were visited and in all instances the unsatisfactory price for wheat was the topic of conversation. Many farmers who have qualified for Government loans on wheat are taking advantage of borrowing from the Commodity Credit Corporation through the Reconstruction Finance Corporation. We understand that the Spokane Agency has already handled approximately two thousand individual applications for wheat loans.

At the time of our visit, it was difficult to obtain definite information with respect to the production of commercial apples in the

Wenatchee-Okanogan district. Early this year it was estimated that the district would produce 16,000 cars of apples, but owing to the unseasonable weather, these estimates have had to be revised downward. From the best information obtainable, it now appears that the production will not exceed 12,000 to 14,000 cars on account of cullage. Opening prices, however, are reported to have been satisfactory and it is hoped that the shortage of production of apples elsewhere in the United States will have a tendency to increase prices. The United States Department of Agriculture estimated that the loss from cullage would be approximately 25%.

Eastern and Southwestern Idaho, Eastern Nevada, and Southwestern Utah

The industries of particular importance in the Idaho regions are diversified agriculture, livestock, and dairying; in Nevada, mining and livestock; in Southwestern Utah, almost exclusively livestock.

Idaho agricultural crops, except hay, the first cutting of which was badly damaged by rainfall, were above average in tonnage and quality. This is particularly true in the Eastern part of the state, where the main cash crops are potatoes, sugar beets, and grain. The lower prices for wheat, beans, seed crops, etc., are but partially offset by increased yields. Two reclamation projects under way in Southwestern Idaho, expected to be completed in 1940 and 1941, will bring 77,000 acres of what is now waste land under irrigation and adaptable to the growing of diversified crops.

Measured by its diversification and production of agricultural products, the Boise Valley is particularly prosperous. This year there have been heavy yields of hay, potatoes, and dairy products. Present outlook is for a surplus of these commodities in the face of a relatively low market and inactive demand. The surplus low priced feed situation is attracting additional livestock to the area for feeding purposes.

The new sugar beet plant at Nyssa just put into operation this fall has expanded valley acreage in sugar beets and is providing growers with a cash crop at a profit. According to factory officials, a superior quality of sugar beet is grown in the irrigated sections of Idaho and Oregon.

Production of lettuce (which is reported very satisfactory) and various seed grains provide additional cash income to farmers.

The completion of the I. O. N. (Idaho-Oregon-Nevada) Highway which runs thru the southeastern corner of Oregon, and which has about 40 miles to complete in Oregon, will greatly facilitate the movement of crops from this area by bringing it closer to the California markets.

The cattle men generally are said to have made a little profit from the season's operations, while wool growers with few exceptions will show losses up to 75¢ per head. There will be considerably less live-stock feeding for market in this region than there was last year and the year's sales have practically been completed.

Recent improvement in metal prices has resulted in increased mining activity and shipments to smelters.

It is reported that thirteen National Park and Forest Highway Construction projects in Idaho and Utah, involving expenditures of more than \$1,300,000.00 are already in progress or are to be opened for bids this month. On contracts already let \$525,000.00 will be expended in Utah and \$246,000.00 in Idaho.

Ontario-Vale-Nyssa, Oregon

This is a section in northeastern Malheur County, forming a triangle on the Idaho border. These towns serve an irrigated area of more than 100,000 acres under two government projects, the Vale Irrigation District and the Owyhee Irrigation District, both of which are comparatively new, water having been placed on the last of the land under the Owyhee District in 1938. This area is growing rapidly and it is reported that between 80 and 90 per cent of the available lands under these irrigation districts have been settled, mostly by people from the middle west.

The Amalgamated Sugar Company has just completed and put into operation this year a \$2,500,000 sugar beet refinery which will handle during the 1938 season about 220,000 tons of sugar beets grown on the land in the irrigated districts of Idaho and Oregon. In addition to the abundance of hay and other feeds grown in this area this year, the sugar beet tops will supply cheap feed for feeder cattle and sheep. The factory provides a seasonal pay roll for between 350 and 400 men in addition to about 1200 field agents. The area is very fertile wherever reached by water and grows a diversification of crops.

Baker Valley, Oregon

While agriculture and livestock prices have been comparatively low, the Baker Valley has produced an abundance of feed which has reduced the cost of operation and livestock operators have had a reasonably good season. There has been an abundance of moisture and good ranges, and both cattle and sheep are going into the winter in very good condition. By reason of the fact that feed has been plentiful and relatively cheap, producers of dairy products have also been reasonably successful this season.

The lumber mills, of which there are two fairly large plants operating in pine, are running on a one-shift basis on a rather discouraging market.

Considerable gold is produced in the Cornucopia and Blue Mountains, which surround Baker, and a number of these operations have proved profitable.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

October - 1938

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	21	1	22	1	#	1	175
New York	172	56	228	9	1,691	None	--
Philadelphia	86	30	116	6	1,674	2	85
Cleveland	171	29	200	6	1,373	None	--
Richmond	47	35	82	8	1,420	4	480
Atlanta	41	49	90	9	350	None	--
Chicago	6	1	7	10	1,565	None	--
St. Louis	45	272	317	14	1,325	3	325
Minneapolis	73	10	83	5	2,130	1	114
Kansas City	57	41	98	19	5,363	1	45
Dallas	28	5	33	None	--	None	--
San Francisco	64	24	88	18	1,909	None	--

Number not reported.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, November 22, 1938.

The following ruling will appear in the Federal Reserve
Bulletin:

Paying for Purchase in Special Cash Account
by Selling Another Security

Section 4(c) of Regulation T provides in part as follows:

"In a special cash account, a creditor may effect for or with any customer bona fide cash transactions in securities in which the creditor may --

(1) purchase any security for, or sell any security to, any customer, provided * * * the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the customer will promptly make full cash payment for such security;

* * * * *

"Except as otherwise provided in this section 4(c), in case a customer does not make full cash payment for a security purchased by him in the account * * * within seven days after the date on which the security was purchased or sold, the creditor shall promptly cancel, cover, or otherwise liquidate, the transaction or the unsettled portion thereof."

The Board recently had occasion to consider two questions regarding transactions in the special cash account.

The first question arose from a case in which a customer proposed to purchase a security in the special cash account and then to

make the necessary prompt payment by selling in the account another security of sufficient value and using the proceeds of sale for the purpose. The question was whether such a proposal for making payment disqualified the purchase for inclusion in the special cash account.

The exact answer to this question would depend upon the circumstances of the particular case. In some circumstances, such a combination of transactions might be evidence of an attempt to evade or circumvent the regulation, and if the purchase was part of such an attempt its inclusion in the special cash account would, of course, be forbidden, because section 4(a) of the regulation provides in part that:

"A special account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this regulation."

It is the view of the Board, however, that, while a proposal to effect such a combination of transactions should be carefully scrutinized, the effecting of the proposed purchase in the special cash account would not necessarily be prohibited if the purchase complied in other respects with the requirements of the regulation and there was in fact no attempt to evade or circumvent the regulation. This would require, among other things, that the proposed purchase be in fact a "bona fide cash transaction" as that term is ordinarily used in the trade and that the proposed sale be one that is to be made and settled promptly.

The second question arose from a permissible instance of the type described above in which the security to be sold was deposited with the creditor and sold promptly, well within seven days after the date of the purchase, and the creditor was to receive the proceeds of sale promptly in the usual course of business but not until more than seven days after the date of the purchase. This presented the question whether in such circumstances it might be considered that the security purchased by the customer had been paid for by him within seven days after the purchase.

Assuming that the purchase was one which, as indicated above, could properly be effected in the special cash account, the question whether it might be considered that payment had been made within seven days should be answered in the affirmative. When a customer has sold a security in a special cash account, section 4(c) permits the broker to make the proceeds of the sale of the security available to the customer upon the receipt of the security in the special cash account even though this be prior to the date on which the broker is to receive the proceeds of the sale. Accordingly, in the instant case the creditor could have paid the customer the proceeds of sale within the seven-day period and the customer could in turn have used such proceeds to make full cash payment to the creditor for the security purchased. In the circumstances, such payment could properly be treated as having been made by the customer without the necessity for the mechanical passage of funds from the creditor to the customer and back again to the creditor.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



R-345

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 18, 1938

SUBJECT: Data for 1938 Annual Report of the Board
of Governors of the Federal Reserve System

Dear Sir:

It will be appreciated if you will kindly furnish us, not later than January 15, 1939, with the following data for use in the Board's forthcoming annual report:

1. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during each month of the calendar year 1938 and during the year as a whole.
2. Statement showing the following information as of December 31, 1938:
 - Number of member banks in operation
 - National banks
 - State bank members
 - Number of nonmember banks on the par list
 - Nonmember State banks (exclusive of mutual savings banks)
 - Private banks
 - Number of nonmember banks not on the par list
 - Nonmember State banks (exclusive of mutual savings banks)
 - Private banks
3. Statement showing the names and locations of banks (including private banks) not on the par list on December 31, 1937, which during 1938,
 - (1) went out of existence (other than through conversion into or succession by national banks)
 - (2) were converted into or succeeded by national banks
 - (3) were admitted to Federal Reserve membership
 - (4) were added to par list (other than through membership)

4. Statement showing the names and locations of banks (including private banks) which became non-par banks during 1938 through
- (1) primary organization of non-par banks
 - (2) conversion of national banks into or succession by nonmember non-par banks
 - (3) withdrawal of State banks from Federal Reserve membership
 - (4) withdrawal of nonmember banks from par list

The figures of banks on the par list and not on the par list on December 31, 1938, should include all banks on which checks are drawn. Statement No. 2 should show separate figures for each State or part of State in the territory assigned to the head office and to each branch, if any. The total figures for each State or part of State should be reconciled with the latest State banking department abstract of condition reports and the Board advised of the names and locations of the banks which account for any differences between the number of banks shown in your statement and in the State banking department abstract. A copy of the reconciliation should accompany the statement showing the number of nonmember banks on par list and not on par list, unless the reconciliation would delay the furnishing of the statement beyond January 15, in which case the statement should be forwarded before the reconciliation is effected and the Board advised of any necessary changes in the statement at the time the reconciliation is furnished.

Very truly yours,



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

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-346 220

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 19, 1938.

Dear Sir:

On Monday, December 26, in observance of Christmas Day, the offices of the Board of Governors and all Federal Reserve banks and branches will be closed.

Incident to the Christmas and New Year's holidays the offices of Government departments and independent establishments in Washington will be closed on Saturday, December 24 and Saturday, December 31. The Board's telegraph office will be open on both those days, however, and the transit clearings through the Interdistrict Settlement Fund will be conducted as usual.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



November 19, 1938.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

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

NUBASM - Treasury Bills to be dated November 23, 1938, and to mature February 23, 1939.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 22, 1938.

Dear Sir:

On page one of the Summary of Bank Relations Reports dated November 15, 1938 (R-343-a) there is a sentence which, through an inadvertence, implies that under existing legislation all insured banks must become members of the Federal Reserve System by 1942.

You will find attached a corrected copy of this page on which the necessary qualification, "with deposits of \$1,000,000 or more", is incorporated in the sentence in question. It is requested that this corrected page be substituted for the page originally sent you.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

November 15, 1938.

To: The Board of Governors
From: Mr. Hammond, Division
of Bank Operations

Subject: Summary of Bank
Relations Reports

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of October and excerpts therefrom will be found on the following pages. A table showing for all twelve banks the number of visits made, meetings attended, and addresses delivered has also been prepared and follows the quotations.

The reports reflect the difficult operating conditions with which large numbers of banks are faced - especially the small ones. Uncertainties as to the proper investment policy, slack demand for loans, and competition of government lending agencies are perhaps most frequently mentioned. The pressure to augment income by charging exchange is commented upon by several Reserve banks, and it is indicated that a very considerable number of banks feel driven to it rather than desiring it. Feeling between par and non-par banks appears to be rather strong in the St. Louis district. There is considerable interest in repealing the requirement that all insured banks with deposits of \$1,000,000 or more become members of the Federal Reserve System by 1942. In certain agricultural regions both in the east and in the west there seems to be an increased demand for loans and in the west particularly a good many banks are expecting to have to rediscount this winter. In urban and industrial regions interest in mortgages appears to be growing and banks situated where desirable mortgages are not available locally are buying them elsewhere.

There is frequent mention in the reports of abundant crops and relatively unsatisfactory prices and of the extent to which farmers are relying on government loans against their products.

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

BOSTON

Twenty-one member banks and one nonmember bank, all located in small communities in Massachusetts and northern Vermont and New Hampshire were visited during the latter part of October.

Most of the towns visited are retail trading centers in communities devoted principally to farming and dairying. In a few of the towns one or two small factories or mills are located manufacturing shoes, woollens or paper, and operating from four to six days a week. Retail trade was reported to be only fair.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

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

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

Industrial production continued to increase sharply in October and the first three weeks of November, reflecting principally larger output of steel and automobiles. Wholesale commodity prices showed little change in this period. Volume of employment and national income increased in October.

Production

In October the Board's seasonally adjusted index of industrial production was at 96 percent of the 1923-1925 average, as compared with 90 percent in September. Steel ingot production increased considerably, averaging 53 percent of capacity in October, and in the first three weeks of November there was a further substantial advance. In the automobile industry output was increased rapidly during October and the first three weeks of November both to stock dealers with new model cars and to meet the increased volume of retail demand accompanying the introduction of new models. Production, which in the first nine months of 1938 had been at a considerably lower level, was at nearly the same rate

as in the corresponding period in other recent years. Output of plate glass also increased sharply further in October. Cement production showed a considerable increase, while lumber production declined slightly.

Activity at textile mills, which had risen sharply during the summer, continued at about the August and September rate, although usually there is an increase at this time of the year. Shoe production declined somewhat further in October, and there was a decrease in output of tobacco products, while in most other industries manufacturing nondurable goods changes in output were largely seasonal in character. Mineral production showed a further moderate rise, reflecting in large part increased output of crude petroleum and nonferrous metals. Lake shipments of iron ore also were in larger volume, although a decrease is usual in October. Coal production increased seasonally.

Value of construction contracts awarded in 37 Eastern States increased considerably in October, according to figures of the F. W. Dodge Corporation, reflecting chiefly a sharp rise in awards for public projects. Contracts for hospital, educational, and other public buildings included in the Public Works Administration program were in large volume, and there was a further increase in contracts awarded for slum clearance projects of the United States Housing Authority.

Employment

Employment and payrolls increased somewhat further between the middle of September and the middle of October. At automobile factories employment continued to rise sharply and there were further moderate

increases in most other durable goods industries. The number employed at canning establishments declined and in other nondurable goods industries showed little change. Employment increased somewhat at mines, on the railroads, and in the construction industry, while in trade the rise was less than seasonal.

Distribution

Sales at department and variety stores and by mail order houses showed less than the usual seasonal increase in October, partly because consumer buying of winter merchandise was retarded by unseasonably warm weather during most of the month. In the first two weeks of November department store sales increased moderately.

Freight-car loadings rose considerably further in October, owing largely to increased shipments of grains, coal, and miscellaneous freight. In the first half of November loadings showed a seasonal decline.

Commodity prices

Wholesale commodity prices generally showed little change from the middle of October to the third week of November. Prices of steel scrap and leather advanced. Tin plate prices, on the other hand, were reduced, and there were also decreases in zinc, hides, and rubber. Prices of farm products and foods showed small fluctuations in this period.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities declined by about \$150,000,000 during the first half of November following a substantial increase during October. The decline

in November was almost entirely at New York City banks and reflected the retirement of State and local government obligations held by these banks. Adjusted demand deposits, which reached an all-time peak of \$16,000,000,000 at reporting banks in the last week in October, also decreased somewhat in the first half of November. Member bank reserves in the middle of November were at about the high level reached a month earlier.

Money rates and bond yields

The prevailing rate on open-market commercial paper declined slightly in November to $5/8$ of 1 percent, a new low level. Other short-term open-market rates were unchanged. Yields on U. S. Government securities and on high-grade corporate bonds showed only small changes during November, continuing close to the low levels reached in October.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-350

228

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 28, 1938.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NUBATH - Treasury Bills to be
dated November 30, 1938, and
to mature March 1, 1939.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

229

R-351

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 2, 1938

Dear Sir:

There is inclosed for your information a proof copy of Form F. R. 34 as revised for use during 1939. It is hoped that shipment of the forms can be made about December 15.

Very truly yours,

A handwritten signature in cursive script, appearing to read "E. L. Smead".

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

Inclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 5, 1938
R-352

Dear Sir:

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

Deletion

New Jersey
Clayton

Clayton Title and Trust Company

The Clayton Title and Trust Company should be added with the following note to the list (R-164-b) of banks which filed agreements with the Board of Governors of the Federal Reserve System pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, but which are no longer in operation as nonmember banks:

(Placed in voluntary liquidation on August 19, 1938)

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-353

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 5, 1938.

Dear Sir:

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

NUBCAB - Treasury Bills to be dated December 7, 1938, and to mature March 8, 1939.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

232

R-354

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 5, 1938.

Dear Sir:

There is inclosed, for your information, a copy of our reply to a letter received from a Federal Reserve bank regarding the method of handling reimbursable expenses for overtime incurred in connection with fiscal agency activities.

Very truly yours,

A handwritten signature in cursive script, appearing to read "E. L. Smead".

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

Inclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

C O P Y

December 3, 1938

Mr. _____, _____,
Federal Reserve Bank of _____,
_____, _____

Dear Mr. _____:

Reference is made to your letter of November 25 regarding the method of handling reimbursable expense incurred for overtime in connection with fiscal agency activities.

It seems to us that if the unit for which the overtime was incurred can be definitely determined it would be preferable to charge any expense arising in this connection direct to such unit.

Very truly yours,

(Signed) E. L. Smead

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



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-355
234

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 6, 1938.

Dear Sir:

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

NOWMLXT - 1 1/8% Treasury Notes of Series B-1943, to be dated December 15, 1938, and to mature on December 15, 1943.

NOWFIN - 2 3/4% Treasury Bonds of 1960-65, to be dated December 15, 1938, and to mature on December 15, 1965.

NOWGAT - 2% Treasury Bonds of 1947, to be dated December 15, 1938, and to mature on December 15, 1947.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

235

R-356

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 9, 1938.

Dear Sir:

There are inclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes from November 1 to November 29, 1938.

Very truly yours,

A handwritten signature in cursive script, appearing to read "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-356-a

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

Federal Reserve Notes, Series 1934.

	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston	66,000	12,000	78,000	\$ 7,176.00
New York	188,000	20,000	208,000	19,136.00
Philadelphia	74,000	20,000	94,000	8,648.00
Cleveland	50,000	19,000	69,000	6,348.00
Richmond	44,000	22,000	66,000	6,072.00
Atlanta	24,000	6,000	30,000	2,760.00
Chicago	124,000	35,000	159,000	14,628.00
St. Louis	34,000	7,000	41,000	3,772.00
Minneapolis	19,000	6,000	25,000	2,300.00
Kansas City	24,000	8,000	32,000	2,944.00
Dallas	21,000	6,000	27,000	2,484.00
San Francisco	<u>50,000</u>	<u>16,000</u>	<u>66,000</u>	<u>6,072.00</u>
	<u>718,000</u>	<u>177,000</u>	<u>895,000</u>	<u>\$82,340.00</u>

895,000 sheets, @ \$92.00 per M.....\$82,340.00



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 12, 1938.

Dear Sir:

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

NUBCEW - Treasury Bills to be dated December 14, 1938, and to mature March 15, 1939.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 13, 1938.

Dear Sir:

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

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

Very truly yours,

A handwritten signature in cursive script, appearing to read "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-358-a

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

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	21,965	420	22,385	\$ 554.40	\$ 332.65	\$ 221.75
New York	60,401	-	60,401	1,495.92	1,033.05	462.87
Philadelphia	16,440	413	16,853	417.39	246.68	170.71
Cleveland	26,668	415	27,083	670.75	210.03	460.72
Richmond	23,307	412	23,719	587.43	200.31	387.12
Atlanta	36,972	403	37,375	925.64	299.32	626.32
Chicago	54,350	701	55,051	1,363.42	1,234.71	128.71
St. Louis	36,850	403	37,253	922.62	255.86	666.76
Minneapolis	15,667	403	16,070	398.00	158.08	239.92
Kansas City	39,877	403	40,280	997.59	205.77	791.82
Dallas	30,484	403	30,887	764.96	278.00	486.96
San Francisco	42,405	466	42,871	1,061.76	373.25	688.51
Board of Governors	218,856	-	218,856	5,420.28	10,752.45	-
Total	624,242	4,842	629,084	\$15,580.16	\$15,580.16	\$5,332.17

(1) Based on cost per word (\$.024766422) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,596.55) and wire rental (\$9,155.90). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 14, 1938.

Dear Sir:

There is inclosed, for your information, a copy of a letter which the Board today is sending to Mr. G. L. Harrison, President, Federal Reserve Bank of New York, with respect to the destruction of certain fiscal agency and depository records, as recommended in the report of the Committee on Destruction of Records maintained by the Federal Reserve banks which was approved by the Conference of Presidents, at the meeting held in Washington November 18, 1936.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT
NEW YORK

December 14, 1938.

Mr. G. L. Harrison, President,
Federal Reserve Bank of New York,
New York, N. Y.

Dear Mr. Harrison:

The report of the Committee on Destruction of Records dated June 11, 1936, which was approved by the Conference of Presidents at the meeting held in Washington on November 18, 1936, contained a recommendation that the Board seek continuing authority from the joint Congressional Committee for the destruction of certain fiscal agency and depository records.

In our letter of March 15, 1937 you were advised that the Board had requested the Secretary of the Treasury to obtain continuing authority for the destruction of the above-mentioned records and that after a reply had been received you would be advised in regard thereto. The Board received a letter from the Treasury Department some time ago stating that the Secretary would request continuing authority to destroy the specified records, and recently was advised informally that while such request had been made through the Archivist of the United States, no action had as yet been taken by the joint Congressional Committee. Discussions with the Treasury Department, however, indicate that it will be agreeable to the Department for the Reserve banks to request authority to destroy such records in the following manner:

1. One Federal Reserve bank should list on Treasury Department Form A the forms which accumulate regularly year after year. It is assumed that such forms at the present time will consist of those fiscal agency and depository records in Schedules D, G, H and I of the Committee's report recommended for destruction, subject to Treasury Department approval.

2. The original and four copies of this list, together with a sample of each item marked with the appropriate item number, should be submitted to the Board. The Board will then forward the original and three copies of this list to the Treasury Department. Form A should be compiled as indicated on the reverse side of the form, all columns being filled in except columns 1 and 7, and should be headed as indicated on the attached sample which was furnished the Board by the Treasury Archivist. It will be noted that the caption "Federal Reserve Banks as Fiscal Agents" should be substituted for the caption "Bureau" and that the location of the records should be shown as "Various Federal Reserve Banks". No particular Federal Reserve bank

should be mentioned in the heading. The Treasury Archivist did not have available information as to the kind of copy (original, or duplicate, printed, or processed) and could not, therefore, fill in column 5 on the attached sample. This column, however, should be filled in by the Federal Reserve bank.

3. After the destruction of the forms listed on Form A has been approved on the recommendation of the Archivist of the United States, the Treasury Department plans to list such forms on a "Standard list of forms to be destroyed periodically". Once having been compiled, the "Standard list of forms to be destroyed periodically" will be duplicated by the Treasury Department and used each year by the Department in making recommendations for the disposition of use-less papers. It will be necessary for the Department to receive advice from the Federal Reserve bank annually only as regards to the elimination of forms that have become obsolete and to the addition of new forms. The forms included on this list should not, however, be destroyed by the Federal Reserve banks until the printed report of the joint Congressional Committee recommending that the records be destroyed has been received.

It will be appreciated if your bank will compile on Form A (supply inclosed) a list of fiscal agency and depository records recommended for destruction, as outlined above, and submit it to the Board for transmission to the Treasury Department. It is suggested that the "Inclusive Dates" shown in column 6 cover the period from the time the forms were first used by the Reserve banks up to and including the most recent year covered by the minimum retention schedule in the Committee's report. After advice is received that the destruction of the forms has been approved, the Board will notify your bank and all other Federal Reserve banks and the forms may then be destroyed.

It is quite possible that other fiscal agency and depository forms and papers have been accumulated by the Reserve banks since the date of the Committee's report which they may wish to receive authority to destroy. While it is thought preferable to confine the request at this time to the forms listed in the Committee's report, a copy of which has been furnished the Treasury Department, once the procedure has been established there would appear to be no objection to requesting authority to destroy other material and it may be desirable to have a Committee of the President's Conference appointed to review such material and make recommendations with regard thereto so that the practice of all Reserve banks will be uniform in this connection.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-360
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 16, 1938.

SUBJECT: Summary Statement of Federal Reserve
Bank Personnel.

Dear Sir:

In accordance with the usual practice, please furnish the Board with a summary statement showing the number and salaries of officers and employees of your bank (including branches, if any) as of December 31, 1938, made out in accordance with the attached form. The figures, which should not include any changes in either the number or salaries of officers or employees that become effective on January 1, 1939, will be published in the Board's 1938 Annual Report.

Very truly yours,

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

Inclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF THE
FEDERAL RESERVE BANK OF _____ (INCLUDING BRANCHES)

December 31, 1938

	<u>Total officers and employees including those whose salaries are reimbursed to the bank in whole or in part</u>	<u>Officers and employees (in- cluded in column 1) whose salaries are reimbursed to the bank in whole or in part(a)</u>
Annual salary of President	\$ _____	
Other officers:		
Number	_____	\$ _____
Annual salaries	_____	_____
Employees, both permanent and temporary:		
Number (b)	_____	_____
Annual salaries	_____	_____

(a) Should represent aggregate of fractional amounts in the case of employees whose salaries are only partly reimbursed to the bank. For example, if 25% of the salary of an employee receiving \$1,200 a year is reimbursed to the bank, .25 should be included in the computation of the "number" of employees, and the amount of salary reimbursed, \$300, should be included in the computation of the annual salaries.

(b) In the case of part-time employees, i.e., employees who are regularly engaged for less than a full day, the "number" reported should represent the portion of the full day worked. For example, if any employee is regularly engaged for one-half of the usual working day, .50 should be included in the computation of the "number" of employees.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 17, 1938.

Dear Sir:

It will be appreciated if you will mail to the Board as soon as practicable after January 1 a copy of the budget approved by your bank for its head office and each of its branches, if any, and for the head office and branches combined, for the calendar year 1939.

Since detailed figures of operating costs are compiled along functional lines by all Federal Reserve banks and since a better comparison can be made between expenses and budgets when the budgets are prepared in the same form in which expenses are reported, it will be appreciated if the 1939 budgets furnished to the Board are prepared along functional lines in accordance with the sample form, R-361-a, attached. The statements should show totals for each function in the functional expense report, Form E.

In addition, it is requested that budget statements be submitted on Form R-361-b and R-361-c showing the itemization of the budgets of the statistical and analytical and bank examination functions.

It will also be appreciated if you will prepare and submit with the budget statements memoranda setting forth in general the reasons for the principal increases and decreases in the budget estimates for 1939 as compared with actual expenses during 1938.

A supply of forms R-361-a, R-361-b, and R-361-c is inclosed.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

SUMMARY OF BUDGET ESTIMATES, 1939

Federal Reserve Bank of _____

(Indicate whether head office,
branch or "combined" report)

<u>Function</u>	<u>Expenses,</u> <u>Year 1938</u>	<u>Budget,</u> <u>Year 1939</u>
General overhead - Controllable		
General overhead - Noncontrollable		
Provision of space (less income and distribution)		
Furniture and equipment		
Provision of personnel		
General service		
Postage		
Insurance		
Failed banks		
Loans, rediscounts, and acceptances		
Securities		
Currency and coin		
Check collection		
Noncash collection		
Accounting		
Legal		
Bank and public relations		
Auditing		
Bank examination		
Federal Reserve note issues		
Statistical and analytical		
Securities exchange		
Fiscal agency, custodianship, and depositary:		
Reimbursable expense		
Expense not reimbursable		
Foreign		
TOTAL (Column 1 must agree with Form E)		

STATISTICAL AND ANALYTICAL BUDGET, 1939

Federal Reserve Bank of _____

(Indicate whether head office, branch or "combined" report)

<u>Expense Unit</u>	<u>Expenses,</u> <u>Year 1938</u>	<u>Budget,</u> <u>Year 1939</u>
---------------------	--------------------------------------	------------------------------------

1. Statistical:

- a. Salaries - Officers*
- b. Salaries - Employees
- c. Retirement system contributions for current service
- d. Traveling expenses
- e. Printing, stationery, and supplies
- f. Telephone and telegraph
- g. Postage and expressage
- h. All other

TOTAL

2. Monthly letter:

- a. Printing and stationery
- b. Postage and expressage

TOTAL

3. Library:

- a. Salaries - Officers*
- b. Salaries - Employees
- c. Retirement system contributions for current service
- d. Traveling expenses
- e. Printing, stationery, and supplies
- f. Telephone and telegraph
- g. Newspapers, periodicals, books, binding, clipping service, etc.
- h. All other

TOTAL

TOTAL, STATISTICAL AND ANALYTICAL

Number of copies of Monthly Letter printed for month of December, 1938

*Indicate in a footnote the complete allocation of the time and salary of each officer whose salary is charged in whole or in part to this unit.

BANK EXAMINATION BUDGET, 1939

Federal Reserve Bank of _____

(Indicate whether head office, branch or "combined" report)

Bank Examination Function

Expenses, Year 1938	Budget, Year 1939
------------------------	----------------------

- a. Salaries - Officers*
- b. Salaries - Employees
- c. Retirement system contributions for current service
- d. Traveling expenses
- e. Printing, stationery, and supplies
- f. Telephone and telegraph
- g. Copies of bank examination reports
- h. All other

TOTAL

DEDUCT -- EXPENSES CHARGED AGAINST BANKS EXAMINED

NET TOTAL, BANK EXAMINATION

*Indicate in a footnote the complete allocation of the time and salary of each officer whose salary is charged in whole or in part to this function.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

249
R-362

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

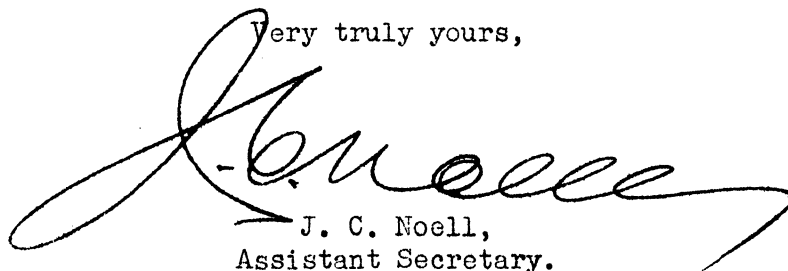
December 17, 1938.

Dear Sir:

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

NUBCIV - Treasury Bills to be dated December 21, 1938, and to mature March 22, 1939.

Very truly yours,

A large, stylized handwritten signature in cursive script, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

250
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.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-364
271

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1938.

Dear Sir:

There is attached a copy of a resolution adopted by the Board of Governors of the Federal Reserve System levying an assessment upon the various Federal reserve banks in an amount equal to two hundred and sixty-two thousandths of one per cent (.00262) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal reserve banks as of the close of business December 31, 1938, to defray the estimated expenses and salaries of the members and employees of the Board from January 1 to June 30, 1939.

The resolution also contains instructions with regard to the manner in which the payments on the assessment shall be deposited with the Federal Reserve Bank of Richmond.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-364-a

RESOLUTION LEVYING ASSESSMENT

WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides, among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning January 1, 1939, it is necessary that a fund equal to two hundred and sixty-two thousandths of one per cent (.00262) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal reserve banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal reserve notes;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal reserve banks an assessment in an amount equal to two hundred and sixty-two thousandths of one per cent (.00262) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business December 31, 1938.

(2) Such assessment shall be paid by each Federal reserve bank in two equal installments on January 3, 1939, and March 1, 1939, respectively.

(3) Every Federal reserve bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Inter-district Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraph advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 20, 1938.

Dear Sir:

On Monday, January 2, the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve banks and branches will be closed.

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

January 9 (Monday) In observance of the anniversary of the Battle of New Orleans (which falls on Sunday) New Orleans

January 19 (Thursday) Anniversary of the birthday of Robert E. Lee

Richmond	Louisville
Charlotte	Memphis
Atlanta	Dallas
Birmingham	El Paso
Jacksonville	Houston
Nashville	San Antonio

On January 9 and 19 the offices affected will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for such offices on January 9 and 19 with your credits for the following business days. No debits covering shipments of Federal Reserve notes for account of the head offices concerned should be included in your note clearing of January 19.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-366
274

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 22, 1938.

Dear Sir:

There have been forwarded to you today under separate cover copies of Form FR 107 to be used by State bank members in submitting their reports of earnings and dividends for the six months ending December 31, 1938.

The form has been revised by eliminating three interest items, and by rearranging the reserve items in sections 2 and 3 so as to conform to the revised form of condition report, FR 105.

The amount of "Reserves for contingencies" reported against item 16(d) of revised Form FR 107 should agree with the amount of the corresponding item in Schedule G of the revised form of condition report. If the amount heretofore reported as "Reserves for contingencies" in earnings and dividends reports has included any valuation allowances which in the condition reports have been deducted from assets, an appropriate adjustment should be made in the next report on Form FR 107. The adjustment may be reported under item 6(d) of Form FR 107 against such a caption as "Valuation allowances heretofore included in reserves for contingencies". If, however, the amount is substantial and the bank so desires, the adjustment may be effected by interlining a new item following item 9 reading "Deduction on account of valuation allowances heretofore included in reserves for contingencies". In either case the amount withdrawn from "Reserves for contingencies" should be included in item 10(d). Definitions of the terms "Reserves for contingencies" and "Valuation allowances" are contained in the pamphlet of instructions, Form FR 105a, governing the preparation of reports of condition of State bank members, copies of which are being sent to you for use in connection with the next call for condition reports.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers of
Monday, December 26, 1938

December 23, 1938

Attached is a copy of a letter sent to
Senator Byrd of Virginia by Chairman Eccles in
answer to the Senator's address in Boston of
December 10.

R-367

December 22, 1938.

My dear Senator:

In the course of your speech attacking the Government which you delivered in Boston on December 10, you so grossly misrepresented my own views that I feel compelled to address this letter to you in order to keep the record straight. You professed to quote from my speech before the New York Chapter of the American Institute of Banking on December 1, but it would appear from your misquotations that you had not done me the justice of reading my speech before you assailed it.

I cannot leave uncorrected the impression conveyed by your speech that I am an advocate of reckless, wasteful, ever increasing spending by the Government. As a banker and business man for more than twenty years before I came to Washington, I have a vital interest in the maintenance of our economic system and of our democratic institutions. I am quite as concerned as you are to maintain the solvency of the Government and to avoid the evils of inflation. However, I am equally in favor of avoiding the evils of deflation. I think I may be forgiven for feeling some impatience when a responsible public official like yourself so misconstrues my viewpoint as to make it appear that my advocacy of properly directed and properly timed Federal expenditures, for the primary purpose of stimulating private enterprise, is based on any other principle or purpose than to aid in bringing about the greatest possible degree of sustained employment and production of real wealth by private activity and enterprise, which, in turn, is the surest safeguard of our democracy as it is of the solvency of our Government. Only in this way, by restoration of national income, can we reach and maintain the balanced budget which I am as desirous as you are of achieving. You have every right to disagree as to the efficacy of fiscal, monetary and other policy in effecting stimulation in depression or retardation in a period of unsound expansion. I, of course, reserve the right to present the other side of the case. But I am convinced that it deserves consideration on its merits, without rancor or misrepresentation.

It is evident from the program you presented in your Boston address that you and I have a fundamentally different conception of the responsibility of Government and of the functioning of the economic system. Your program makes only five specific recommendations, all calling for immediate and drastic curtailment of government expenditures.

You appear to believe that a large part of the Government's expenditure is "waste". You are fearful about the Government's credit and alarmed about the "burden" put upon the country by the public debt. There is not space within a letter adequately to discuss these matters, but in view of your program and since you saw fit to make a personal attack upon me, I feel that it is in order to raise a number of questions with respect to each of the foregoing considerations.

As to the "burden" of debt: The pertinent facts are the volume of total debt in the country, the interest on that debt, and the income out of which interest may be paid. You failed to mention any of these pertinent facts. Are you aware of studies made by a distinguished group of scholars, under the auspices of the Twentieth Century Fund, indicating that the total of all domestic debts, both public and private, is no greater today than it was in 1929? That being so, does it not give a one-sided and alarming picture of the country's debt situation to concentrate attention solely upon the increase in the public debt without regard to the contraction of private debt, and without regard to the increase in population and in the material wealth of the country since 1929? Is it of no significance that, owing to the decline in the rate of interest, the total of interest payments today is far less than in 1929? Is it of no significance that while the burden of interest payments has been lessened, national income, out of which debts are serviced, increased since the low point of 1932 until in 1937 it was \$30,000,000,000 more than in 1932? Is it of no significance that the interest on the Federal debt amounts to only a little more than 1 per cent of our national income? Finally, is it of no significance that as a nation we owe our debts to ourselves and not to a foreign country?

As to your concern about the burden of taxation, have you not overlooked the fact that as national income increases, tax revenues increase, even without a rise in tax rates? National income increased from less than \$40 billions in 1932 to approximately \$70 billions in 1937. Tax receipts of the Federal Government increased from \$2,080,000,000 for the fiscal year ending June 30, 1933, to \$6,242,000,000 for the fiscal year ending June 30, 1938. The country paid about \$4 billions more in taxes but it had \$30 billions more of income a year out of which to make these payments. Would you have the public believe that the country was better off in 1932 with lower taxes and a lower public debt than it was in 1937 with higher taxes and a higher public debt?

Since 1937, national income has temporarily contracted due to a combination of factors, one of which was a too sharp and too rapid reduction, amounting to more than \$3,000,000,000, in the Government's net contribution to community buying power in 1937 as compared with 1936. The Government's net contribution to purchasing power is the amount that the Government expends over and above the amount it collects. On this basis, the Government not only drastically withdrew its stimulus to consumption in 1937, but contrary to your apparent belief, actually had a balanced cash budget and a cash surplus of about \$100,000,000 for the period from June 30, 1937, to March 30, 1938.

So much for the debt "burden". Turning to the question of what is to be entered upon the credit side of the ledger as an offset to the increase of the public debt, you evidently contend that nothing is to be entered; that the Government's expenditures, for which the debt was incurred, represented "waste".

Is it "waste", as you seem to think, to have the Government borrow and put to use otherwise idle funds of individuals and corporations? Is it "waste" to have the Government, by borrowing from the commercial banks, replenish the supply of bank deposits which contracted by one-third because of debt liquidation during the deflation, and put this newly created money to work providing employment and thus utilizing man power and productive facilities that otherwise would have remained idle? Is it "waste" for the Government to expend these newly created and these otherwise idle funds for roads, slum clearance, bridges, school houses, hospitals, and a host of other useful and necessary things that are needed by the community but are not supplied by private enterprise? Are these additions to our national wealth, additions resulting from public expenditures that are based upon increase of public debt, more "wasteful" than the expenditures in the late twenties, based upon private debt, whereby billions of dollars were diverted to uncollectable foreign loans and to build at inflated prices huge skyscrapers, office buildings and apartment houses, many of which never have been sufficiently occupied to maintain the investment?

Do you think it was "natural forces" that produced the recovery after 1933? Do you think that the restoration of the national income from less than \$40 billions to approximately \$70 billions came about in spite of and not as a result of Government expenditures? If so, why was it that for more than three years after 1929, when we did not have the legislation or expenditures to which you so strenuously object, there was no recovery, but instead, a continuing deflation until

the Government intervened on a comprehensive scale, replenished bank deposits and put these funds, together with stagnant funds held by individuals and corporations, to work? This, of course, increased the public debt after private debt had rapidly contracted. Doubtless had the Government been adequately prepared, it could have spent money more efficiently and more productively. Yet, in the light of all of the foregoing considerations, how can it justly be said that the Government's expenditures were "waste"? What to my mind is the real and irreparable waste, which the nation can least afford, is that which results from failure to use our human and material resources productively.

As to the Government's credit: Why do you suppose it was that in 1932, when the Government's debt was about half of what it is now, 3% government bonds sold down as low as 83? If the Government's credit is as precarious as you told your Boston audience, why is it that 2½% government bonds today are selling at a premium of more than 102? How does it happen that since 1933 foreign capital has steadily flowed into the country from abroad, if the credit of the country is in jeopardy, as you contend?

Early in your speech you extolled "those time-old virtues of thrift, frugality, self-reliance and industry". Somewhat later, however, you expressed alarm at the increase in debt of the last five years. I am at a loss to understand how you reconcile these two ideas. Certainly if it is good for people to save, i.e., practice the virtues of thrift and frugality, it must also be good that someone should borrow money and put it to productive uses. Private enterprise has in the years since the depression began been in no position to employ profitably anywhere near the total of the country's savings, because there was not sufficient buying power in the hands of the public to purchase the output of existing facilities of production.

In connection with the question of debt, you also make the curious statement that some day the whole amount must be repaid. Such a statement reflects a misunderstanding of the fundamental nature of our capitalist economy. Debts and obligations of various kinds are but the other side of investment, and if we ever tried to liquidate the whole amount of them, or even any substantial fraction, we would precipitate a crisis so severe that general economic paralysis would result. When there is contraction of total debt, private and public, we have deflation. We have never had prosperous conditions without an accompanying expansion of debt, either private or public, or both.

Do you think, as your speech seemed to indicate, that in a democracy the Government has no responsibility for creating debt in order to give employment at times when private indebtedness is contracting and private enterprise is unable to do so? Do you consider, as your speech implies, that government debt is evil, whereas private debt is not? One would gather from your attitude that if a private contractor, for example, borrows money to build houses you would commend him for "raising capital for private enterprise", whereas, if a government housing authority borrows money for the same purpose, you would denounce it for "incurring debt".

Do not the same general economic considerations apply to both private and public debt? Is it not true that the creation of too much debt relative to the creation of real wealth is inflationary and, therefore, bad, whether that debt be created by public or private activity, or both? Can it be said that the creation of debt, either public or private, that utilizes productively otherwise unused human and material resources, that creates real wealth, that adds both to existing real wealth and to national income, is an evil? Is not the exact opposite true?

While you say that everyone in need should be provided for, I find this statement hard to reconcile with your broadside attack on the organization that has carried most of the task of seeing to it that those in need are kept from want and starvation. You assert that "millions of able-bodied citizens rely upon the Government for support and have ceased to exert their efforts for self-help to obtain private employment". So far as I know, there is not the slightest evidence to support such a sweeping assertion. Any honest American citizen must resent the insult this implies to millions of self-respecting men and women.

You stated that you are concerned about "the character of the individual citizen" and "the dignity and the rights of the individual". So am I. I believe, however, that the most basic right of all is the right to live and next to that, the right to work. I do not think empty stomachs build character, nor do I think the substitution of idleness and a dole for useful work relief will improve either the dignity or the character of the people affected. We cannot expect to preserve our free institutions in this country if we condemn a substantial proportion of our people to prolonged idleness on a bare subsistence level of existence. Further than the right to eat and the right to a position, I think the individual, whether rich or poor, has a right to a decent place to live. I think he has a right to security in old age and to protection against temporary unemployment. I think he has a right to adequate medical

attention and to equal educational opportunities with the rest of his countrymen. The government expenditures which you condemn have in large part been the means of translating these basic rights into realities. Anyone who is genuinely sincere in his concern about the rights, the dignity, and the character of the individual citizen, far from seeking to tear down what has already been done, will want to have a hand in expanding and improving this work for the future.

There are many other questions which it seems to me your address and your attitude leave unanswered. I do not profess to know all the answers to the many complex and difficult economic problems confronting the nation, but I am convinced that if your program of sudden, drastic retrenchment were followed, we would witness another sharp reversal and renewed deflation. And I, for one, am not prepared to believe that this nation is doomed to stagnation, to a low level of national income, to a wholly unsatisfactory standard of living instead of the high standards, the achievement of which depends only upon our correct understanding of the operations of our economic system. I am convinced that your program is not only a defeatist one, a program of retrogression and not of progress, but that it would jeopardize the salvation of our democracy which I know you are as sincerely desirous of preserving as I am.

We disagree fundamentally and completely on how best to accomplish that end, but of one other thing I am also persuaded, that we will not find the answers by indulgence in name-calling, such as marred your Boston address. We will find the answers by recognizing clearly what the problems are, by understanding how our economy functions, and by working out practical solutions in an atmosphere of calm reason instead of intemperate denunciation.

Very truly yours,

(signed) M. S. Eccles.

Chairman.

Honorable Harry F. Byrd,
United States Senate,
Washington, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-368

282

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1938.

Dear Sir:

The Board's letter of June 23, 1938 (R-267) transmitted copies of a form for use in obtaining reports as of June 30, 1938, from all holding company affiliates having general voting permits, and stated that consideration was being given to requesting such holding company affiliates to submit annual reports, beginning with a report for the year ending December 31, 1938. After further consideration of the matter, and on the basis of experience with the reports as of June 30, 1938, it has been decided to obtain such annual reports for the year ending December 31, 1938, or for the holding company affiliate's fiscal year if it differs from the calendar year.

There is inclosed a copy of a form for such reports (Form F. R. 437), additional copies of which are being forwarded to your bank under separate cover. It will be noted that the form is similar to that used in obtaining the reports of holding company affiliates as of June 30, 1938. It has, however, been revised in certain respects, after careful consideration of the comments and suggestions received.

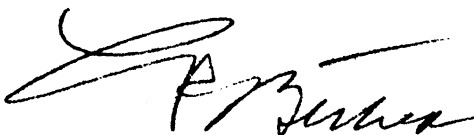
Please deliver immediately to each holding company affiliate, which has its principal executive office in your district and which now holds a general voting permit, three copies of Form F. R. 437, with the request that the report be filed in duplicate with your bank not later than February 1, 1939. As in the case of the reports as of June 30, 1938, one complete copy of each report filed with your bank should be forwarded promptly to the Board. It will be appreciated if you will forward to the Board any further information, comments, or suggestions which you may have regarding each case after you have had an opportunity to review the reports filed and to obtain from the respective holding company affiliates such additional data and explanations as you may deem necessary to complete the reports.

The Board's letter of June 23, 1938, contained certain other instructions regarding the procedure to be followed in obtaining the reports which are substantially applicable to the handling of the annual reports now requested. Accordingly, such instructions are reproduced for ready reference in the attached memorandum, with certain changes and additions.

Although it was considered necessary to obtain reports, in the form provided, as of June 30, 1938 and December 31, 1938, it is not now contemplated that such reports will be requested regularly as of June 30. However, it is contemplated that regular annual reports as of the end of the calendar year, or the holding company affiliate's fiscal year, and such other reports as are necessary in the light of facts and circumstances, will be requested.

We shall be glad to have the benefit of any comments, criticisms, and suggestions regarding Form F. R. 437 which may occur to you or to the examination department of your bank in obtaining and reviewing the annual reports of the various holding company affiliates.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Inclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

MEMORANDUM REGARDING PROCEDURE TO BE FOLLOWED IN OBTAINING ANNUAL
REPORTS OF HOLDING COMPANY AFFILIATES ON FORM F.R. 437

The report of each holding company affiliate should be for the year ending December 31, 1938, except that, in case the holding company affiliate's fiscal year differs from the calendar year, it is desired that its report cover the first fiscal year ended after June 30, 1938. Reports for the fiscal year rather than the calendar year are requested in such cases because of the fact that the reports on Form F.R. 437 should be more satisfactory, and the preparation thereof more convenient, if such reports cover the same periods as those covered by annual audits and annual reports to shareholders.

When delivering Form F.R. 437 to any member or nonmember insured banks in your district which are holding company affiliates and which hold general voting permits, please advise such banks that they may omit the following data requested in the form:

- Page 2 - Balance Sheet
- Page 3 - Statement of Income
- Page 3 - Analysis of Earned Surplus
- Page 3 - Analysis of Each Other Surplus Account and of
Each Reserve Account
- Page 4 - Schedule A - Securities (Other than securities
of affiliated organizations)
- Page 6 - Schedule E - Notes Payable
- Page 6 - Schedule F - Accounts Payable
- Page 7 - Capital Stock (Of holding company affiliate)
- Page 9 - Supplemental Information - Items 1, 2, and 6.

In any group in which there are two holding company affiliates, detailed information need not be duplicated in the annual reports filed by the holding company affiliates, but such of the detailed information submitted by one holding company affiliate as is applicable to the other may be included by reference in the report submitted by the latter.

In obtaining these annual reports, it is desired to avoid placing any unnecessary burden upon holding company affiliates. Accordingly, Form F.R. 437 has been drafted to provide a convenient means for furnishing the information which is desired. However, if in the ordinary course of its affairs or in preparing other similar reports a holding company affiliate prepares financial or statistical data which contain the information requested in Form F.R. 437, copies of such data may be submitted in lieu of the form or portions thereof covered by such data. It is, nevertheless, essential that all details of the information requested in Form F.R. 437 be clearly covered in the data submitted by the holding company affiliate as of the end of its fiscal year. Regardless of whether the information furnished by the holding company affiliate is supplied on Form F.R. 437 or in some other manner, it is desired that an officer of the holding company affiliate certify that the report (including all accompanying schedules, statements, and other data) has been examined by him and is, to the best of his knowledge and belief, a true, correct and complete report.

Particular attention is directed to the fact that the holding company affiliate is requested to submit the financial statements, as of the end of its fiscal year, of each of its subsidiaries and each other affiliated organization, as described and with the exceptions indicated in item 8 on page 9 of Form F.R. 437.

It will be noted that, pursuant to item 8 on page 9 of Form F.R. 437, the holding company affiliate should submit for each nonmember uninsured bank copies of reports of condition and of earnings and dividends filed with the State supervisory authorities. Such reports are requested in

order that substantially similar information may be available with respect to all banks in the group. In this connection, it is also requested that the Federal Reserve banks obtain copies of the latest reports of examination by the respective State supervisory authorities of nonmember uninsured banks which are subsidiaries of the holding company affiliates filing reports on Form F.R. 437. One copy of each such report of examination should be forwarded to the Board by the Federal Reserve bank with the report submitted by the holding company affiliate on Form F.R. 437.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Sunday, December 25, 1938.

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

The sharp rise in industrial production, which began early last summer, continued in November. Preliminary reports for the first three weeks of December indicate some slowing down in the advance. Employment also increased in November and payrolls showed little change, although a decline is usual at this season. Distribution of commodities to consumers increased considerably.

Production

The Board's seasonally adjusted index of industrial production in November rose to 103 percent of the 1923-1925 average from 96 percent in October. Output of steel continued to increase, contrary to the seasonal trend, and there was a further sharp rise in automobile production. In the first three weeks of December activity at steel mills declined somewhat more than seasonally, while output of automobiles continued at the high level reached at the end of November. Lumber production in November decreased by more than the usual seasonal amount. In the nondurable goods industries, shoe production declined

seasonally, while output of textiles showed a considerable expansion, with increased activity at cotton, wool, and silk mills. At mines, bituminous coal output increased further and production of anthracite showed less than the usual seasonal decline. Output of petroleum showed little change.

Value of construction contracts awarded in November showed a decline from the high level reached in October, according to F. W. Dodge figures for 37 Eastern States. Private and public projects both declined, following increases in October. The decline in contracts for private residential building was less than seasonal.

Employment

Employment increased somewhat further and payrolls showed little change between the middle of October and the middle of November, although declines are usual at this time of year. In manufacturing the number employed continued to rise, reflecting principally a further sharp increase at automobile factories and substantial increases in the machinery, steel, and textile industries. Employment declined seasonally at establishments producing clothing and shoes; in most other industries employment increased somewhat. In lines other than manufacturing, employment showed some increase, when allowance is made for usual seasonal changes.

Distribution

Distribution of commodities to consumers showed a considerable increase in November. Department store sales and mail order sales,

which had been retarded in October by unseasonably warm weather, rose sharply, and sales at variety stores also increased in November. Sales of automobiles to consumers expanded sharply following the introduction of new models and in November were larger than a year earlier.

Freight-car loadings, which had increased considerably in previous months, showed a slightly less than seasonal decline in November.

Commodity prices

Prices of some industrial materials, such as nonferrous metals, hides, and cotton goods, decreased somewhat from the middle of November to the third week of December. Sugar prices also declined, while grains advanced somewhat. Prices of most other agricultural and industrial commodities continued to show little change.

Bank credit

In connection with pre-holiday trade, there was a sharp increase in money in circulation and as the result of this increase in the demand for currency, together with Treasury operations around December 15, there was a temporary decline in member bank reserves.

Following declines during November, total loans and investments of reporting member banks in 101 leading cities increased during the first three weeks of December, largely reflecting operations of the Treasury. Loans to security dealers by New York banks increased sharply, reflecting temporary borrowing for the purpose of carrying Government securities exchangeable for new issues on December 15. Adjusted demand deposits rose to a new high level in the first half of December.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1938.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NUBCOX - Treasury Bills to be
dated December 28, 1938, and to
mature March 29, 1939.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

R-371

December 27, 1938.

Dear Sir:

There are inclosed six copies of revised Form F.R. 414,
"Computation of Reserve to be Carried with the Federal Reserve
Bank by Member Banks". The form has been revised so that the
references to the call report will correspond with the revised
call report form to be used by member banks in submitting
condition reports as of the next call date.

Very truly yours,

A handwritten signature in cursive script, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

Inclosures

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

COMPUTATION OF RESERVE TO BE CARRIED WITH THE FEDERAL RESERVE BANK

BY MEMBER BANKS

(For definitions of the terms gross demand deposits, deductions allowed in computing reserves, cash items in process of collection, net demand deposits and time deposits, see Regulation D of the Board of Governors of the Federal Reserve System)

1. GROSS DEMAND DEPOSITS, including U. S. Government deposits and demand balances of other banks \$ _____

(See Schedule E of the quarterly condition report for items constituting demand deposits)

2. DEDUCTIONS ALLOWED IN COMPUTING RESERVES:

(a) Cash items in process of collection, except to the extent included in item 2-b (including checks with Federal Reserve banks in process of collection and checks on hand which will be presented for payment or forwarded for collection on the following business day) \$ _____

(Corresponds to item 1 in Schedule D of the quarterly condition report)

(b) Balances subject to immediate withdrawal due from other banks* (except balances due from Federal Reserve banks, from foreign banks or branches thereof, from foreign branches of domestic banks, or from private banks) _____

(Corresponds to item 2 in Schedule D of the quarterly condition report)

3. NET DEMAND DEPOSITS (item 1 minus item 2) _____

4. TIME DEPOSITS _____

(See Schedule F of the quarterly condition report for items constituting time deposits)

5. RESERVE REQUIRED**:

(a) On net demand deposits (item 3 above):
Banks in central reserve cities, 13 percent;
Banks in reserve cities, 10 percent;
Banks located elsewhere, 7 percent _____

(b) On time deposits (item 4 above): 3 percent _____

(c) Total reserve to be maintained with Federal Reserve bank _____

*Including cash items forwarded to a correspondent bank for collection and credit and charged to item "Due from banks".

**Basic statutory requirements. For actual current reserve percentages, see latest issue of Federal Reserve Bulletin.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 28, 1938.

Dear Sir:

There are being forwarded to you today under separate cover, the number indicated of the following forms for use at your bank during 1939:

<u>Form F.R. number</u>	<u>Number of copies</u>
38	
95	
96	
96a	
160	
160a	
160b	
160c	

Very truly yours,

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

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers of
Saturday, December 31, 1938.

December 30, 1938.

The Board of Governors of the Federal Reserve System today announced the following designations and appointments of chairmen and deputy chairmen of the Federal reserve banks for the year 1939, and directors of Federal reserve banks and branches for the terms specified:

FEDERAL RESERVE BANK OF BOSTON

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. F. H. Curtiss of Boston
DEPUTY CHAIRMAN: Mr. H. S. Dennison of Framingham, Massachusetts.
CLASS "C" DIRECTOR:
For three-year term beginning January 1, 1939: Mr. F. H. Curtiss of Boston.

FEDERAL RESERVE BANK OF NEW YORK

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Owen D. Young of New York, New York.
DEPUTY CHAIRMAN: Mr. Beardsley Ruml of New York, New York.
CLASS "C" DIRECTOR:
For three-year term beginning January 1, 1939: Mr. Beardsley Ruml of New York, New York.

Buffalo Branch of the Federal Reserve Bank of New York

BRANCH DIRECTOR:
For three-year term beginning January 1, 1939: Mr. M. B. Folsom of Rochester, New York.

FEDERAL RESERVE BANK OF PHILADELPHIA

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Thomas B. McCabe of Swarthmore, Pennsylvania.
DEPUTY CHAIRMAN: Mr. Francis Biddle of Philadelphia, Pennsylvania.

FEDERAL RESERVE BANK OF CLEVELAND

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. George C. Brainard of Youngstown, Ohio.
DEPUTY CHAIRMAN: Mr. R. E. Klages of Columbus, Ohio.
CLASS "C" DIRECTOR:
For three-year term beginning January 1, 1939: Mr. James C. Stone of Lexington, Kentucky.

Cincinnati Branch of the Federal Reserve Bank of Cleveland

BRANCH DIRECTOR:

For two-year term beginning January 1, 1939: Mr. Alexander Thomson of Cincinnati.

Pittsburgh Branch of the Federal Reserve Bank of Cleveland

BRANCH DIRECTOR:

For two-year term beginning January 1, 1939: Mr. George T. Ladd of Pittsburgh.

FEDERAL RESERVE BANK OF RICHMOND

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Robert Lassiter of Charlotte, North Carolina.

DEPUTY CHAIRMAN: Mr. W. G. Wysor of Richmond.

Baltimore Branch of the Federal Reserve Bank of RichmondBRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. W. Frank Thomas of Westminster, Maryland.

Charlotte Branch of the Federal Reserve Bank of Richmond

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. George S. Harris of Charlotte.

FEDERAL RESERVE BANK OF ATLANTA

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Frank H. Neely of Atlanta.

DEPUTY CHAIRMAN: Mr. J. F. Porter of Williamsport, Tennessee.

CLASS "C" DIRECTOR:

For three-year term beginning January 1, 1939: Mr. Frank H. Neely of Atlanta.

Birmingham Branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. Donald Comer of Birmingham.

Jacksonville Branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. Robert H. Gamble of Jacksonville.

Nashville Branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. Clyde
B. Austin of Greeneville, Tennessee.

New Orleans Branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. Alexander
Fitz-Hugh of Vicksburg, Mississippi.
For unexpired portion of term ending December 31, 1940: Mr.
E. F. Billington of Meridian, Mississippi.

FEDERAL RESERVE BANK OF CHICAGO

DEPUTY CHAIRMAN: Mr. R. E. Wood of Chicago

CLASS "C" DIRECTOR:

For three-year term beginning January 1, 1939: Mr. R. E. Wood
of Chicago.

Detroit Branch of the Federal Reserve Bank of Chicago

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. L. W.
Watkins of Manchester, Michigan.

FEDERAL RESERVE BANK OF ST. LOUIS

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. W. T. Nardin of St. Louis.

DEPUTY CHAIRMAN: Mr. Oscar Johnston of Scott, Mississippi.

Louisville Branch of the Federal Reserve Bank of St. Louis

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. J. B.
Hill of Louisville.

Little Rock Branch of the Federal Reserve Bank of St. Louis

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. H. H. Tucker
of Little Rock.

Memphis Branch of the Federal Reserve Bank of St. Louis

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. J. Holmes
Sherard of Sherard, Mississippi.

FEDERAL RESERVE BANK OF MINNEAPOLIS

DEPUTY CHAIRMAN: Mr. W. C. Coffey of St. Paul, Minnesota.

Helena Branch of the Federal Reserve Bank of Minneapolis

BRANCH DIRECTOR:

For two-year term beginning January 1, 1939: Mr. Alex
Cunningham of Helena.

FEDERAL RESERVE BANK OF KANSAS CITY

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Robert B. Caldwell of
Kansas City, Missouri.

DEPUTY CHAIRMAN: Mr. J. J. Thomas of Seward, Nebraska.

CLASS "C" DIRECTOR:

For three-year term beginning January 1, 1939: Mr. J. J. Thomas
of Seward, Nebraska.

Denver Branch of the Federal Reserve Bank of Kansas City

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. J. B. Grant
of Denver.

Oklahoma City Branch of the Federal Reserve Bank of Kansas City

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. Clarence
Roberts of Oklahoma City.

Omaha Branch of the Federal Reserve Bank of Kansas City

BRANCH DIRECTOR:

For three year term beginning January 1, 1939: Mr. R. E.
Campbell of Lincoln, Nebraska.

FEDERAL RESERVE BANK OF DALLAS

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. J. H. Merritt of McKinney,
Texas.

DEPUTY CHAIRMAN: Mr. Jay Taylor of Amarillo, Texas.

CLASS "C" DIRECTOR:

For three-year term beginning January 1, 1939: Mr. J. H.
Merritt of McKinney, Texas.

El Paso Branch of the Federal Reserve Bank of Dallas

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. F. M. Hayner
of Las Cruces, New Mexico.

Houston Branch of the Federal Reserve Bank of Dallas

BRANCH DIRECTOR:

For three-year term beginning January 1, 1939: Mr. H. Renfert
of Galveston, Texas.

FEDERAL RESERVE BANK OF SAN FRANCISCO

DEPUTY CHAIRMAN: Mr. St. George Holden of San Francisco

Los Angeles Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:

For two-year term beginning January 1, 1939: Mr. W. S. Rosecrans
of Hermosa Beach, California.

Portland Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:

For two-year term beginning January 1, 1939: Mr. A. E.
Engbretsen of Astoria, Oregon.

Salt Lake City Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:

For two-year term beginning January 1, 1939: Mr. John Thomas
of Gooding, Idaho.

Seattle Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:

For two-year term beginning January 1, 1939: Mr. Fred Nelsen
of Seattle.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-374
299

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

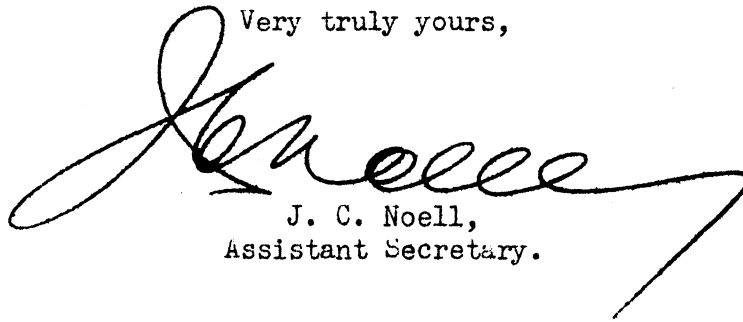
December 30, 1938.

Dear Sir:

In connection with telegraphic trans-
actions in Government securities between Fed-
eral reserve banks, the following code word
has been designated to cover a new issue of
Treasury Bills:

NUBCUA - Treasury Bills to be
dated January 4, 1939, and to
mature April 5, 1939.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

300

R-375

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1938

Dear Sir:

Referring to our telegram of December 9, there are being forwarded to you under separate cover copies of each of the pages shown below of the "Manual of Instructions Governing the Preparation of Functional Expense Reports (Form E)", which have been revised as of July 1, 1938. An additional set of pages is inclosed for your information.

Page 1	Page 92
" 13	" 97
" 28	" 100-107
" 33-34a	" 121a-121d
" 48	" 124-125
" 53	

Table of Contents (cont'd)

Page 126 should be eliminated from the Manual.

As mentioned in our telegram, the changes which have been made in the above-mentioned pages of the Manual are largely in order to provide for new fiscal agency units which have been established since the date of the last revision of the Manual. Nearly all of the Federal Reserve banks were in favor of combining the Treasury Department - Current Issues and Uncurrent Issues units into one unit "Treasury Issues" and of establishing a new unit, "United States Savings Bonds", and these changes have, therefore, also been made. In the case of both of these units the amount reported in the "Reimbursable expense" column will in general represent the expense incurred in connection with "Current Issues" and the amount reported in the "Expense not reimbursable" column will represent the expense incurred in connection with "Uncurrent Issues" under the present arrangement with the Treasury Department relating to reimbursable expenses.

- 2 -

The revised instructions have been made effective as of July 1, 1938, since it is understood that the only figures that are not readily available are those relating to the segregation of the nonreimbursable uncurrent issues expense between the new "Treasury Issues" and "U. S. Savings Bonds" units and it will be entirely satisfactory in the case of reports for the last half of 1938 to estimate the portion of the total nonreimbursable expenses in these two units which are attributable to each unit.

Certain pages of Form E are being reprinted to conform with the revised pages of the Manual and a supply thereof will be forwarded to you as soon as received from the printer.

Very truly yours,



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

Inclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

302

R-376

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1938.

Dear Sir:

As you know, the form of balance sheet to be used by member banks in submitting condition reports will hereafter show interests of stockholders under the caption "Capital Account", instead of under the caption "Liabilities" as heretofore. The reasons which prompted a change in this form apply as well to the form of condition statement used by the Federal Reserve banks and, accordingly, beginning with the statement as of January 4, 1939 the Board's weekly statement of condition of the Federal Reserve banks will show the capital accounts of the banks separately from their liabilities.

Attached is a revision of Form FR 408 which, with the omission of the code words, corresponds to page 2 of the Board's weekly statement. Similar changes will, of course, be made in page 4 of the Board's statement.

It will be noted that the title of this statement has been changed to "Statement of Condition of the Twelve Federal Reserve Banks Combined"; that the item "All other assets" has been changed to "Other assets"; that the item "All other liabilities" has been changed to "Other liabilities including accrued dividends"; and that the item "Reserve for contingencies" has been changed to "Other capital accounts". The last mentioned item will represent the sum of amounts reported against code items "TOOK" and "TWIG" on Form 34.

There is also attached a statement showing figures for all Federal Reserve banks combined for each weekly statement date in 1938 for items "Other liabilities including accrued dividends", "Total liabilities" and "Other capital accounts", also revised figures for certain other items due to corrections received from the Federal Reserve banks too late to be reflected in the second column of page 2 of the Board's statement for the following week. The figures shown in this statement will be used during 1939 in obtaining changes from the corresponding date of the preceding year appearing in column 3 of page 2 of the Board's weekly statement of condition.

Very truly yours,

Chester Morrill,
Secretary.

Incllosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

"OTHER LIABILITIES INCLUDING ACCRUED DIVIDENDS", "TOTAL LIABILITIES", AND "OTHER CAPITAL ACCOUNTS" OF THE 12 FEDERAL RESERVE BANKS COMBINED ON WEEKLY STATEMENT DATES IN 1938, AS REVISED FOR USE DURING 1939.
(In thousands of dollars)

1938				1938			
	Other liabilities including accrued dividends	Total liabilities	Other capital accounts		Other liabilities including accrued dividends	Total liabilities	Other capital accounts
Jan. 5	3,288	12,491,359	33,224	July 6	1,978	13,955,201	39,222
12	3,388	12,471,840	33,626	13	2,916	14,047,847	39,482
19	6,753	12,531,845	33,728	20	2,340	14,002,940	39,292
26	3,925	12,433,228	34,093	27	2,913	13,954,715	39,499
Feb. 2	4,053	12,451,049	34,105	Aug. 3	2,567	13,942,360	39,353
9	3,848	12,403,535	34,633	10	2,817	13,900,733	39,637
16	3,871	12,659,982	34,493	17	2,883	13,979,005	39,283
23	3,831	12,464,494	34,800	24	3,171	13,899,435	39,501
Mar. 2	4,132	12,566,710	34,813	31	3,320	13,912,709	39,032
9	5,135	12,516,776	36,157	Sept. 7	3,479	13,892,200	39,171
16	4,096	12,770,855	35,883	14	6,576	14,125,982	39,164
23	4,363	12,569,545	36,308	21	3,569	14,080,562	39,391
30	4,890	12,555,733	36,332	28	3,840	14,174,830	39,586
Apr. 6	4,831	12,554,578	36,305	Oct. 5	3,847	14,330,094	39,648
13	5,773	12,728,051	36,668	12	4,328	14,366,477	39,860
20	4,613	14,035,259	38,666	19	4,195	14,653,181	39,568
27	5,489	13,979,020	39,245	26	4,468	14,581,051	39,751
May 4	4,803	13,990,126	38,797	Nov. 2	4,380	14,639,828	39,254
11	5,237	13,957,275	39,064	9	4,658	14,589,884	39,522
18	5,075	14,014,821	38,695	16	4,684	14,946,846	39,112
25	5,110	13,942,947	38,951	23	4,995	14,865,905	39,280
June 1	5,477	13,972,390	38,548	30	5,584	14,944,619	38,891
8	6,656	13,915,037	38,787	Dec. 7	5,393	14,993,441	39,028
15	5,699	14,081,941	38,943	14	9,583	15,217,215	38,945
22	5,700	13,999,258	39,325	21	5,496	15,220,785	38,650
29	6,976	13,923,620	39,374	28	5,703	15,163,031	38,588

OTHER CHANGES IN FIGURES PUBLISHED IN 1938 WEEKLY CONDITION STATEMENTS

	<u>FROM</u>	<u>TO</u>
<u>January 26, 1938</u>		
Other cash	440,664	440,954
Gold certificates on hand and due from U.S. Treasury	9,117,895	9,117,605
<u>February 2</u>		
Uncollected items	533,855	533,885
Bank premises	44,971	44,941
<u>April 27</u>		
Bills discounted:		
Secured by U. S. Gov't obligations direct or fully guaranteed	5,592	5,572
Other bills discounted	2,879	2,899
<u>July 20</u>		
Bills discounted:		
Secured by U. S. Gov't obligations direct or fully guaranteed	4,467	4,457
Other bills discounted	3,118	3,128

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM
DIVISION OF BANK OPERATIONS
DECEMBER 30, 1938.

R-376a

Released for publication Friday morning, _____, 19__; not earlier.

STATEMENT OF CONDITION
OF THE TWELVE FEDERAL RESERVE BANKS COMBINED

(In thousands of dollars)

COND _____

ASSETS

Gold certificates on hand and due from U. S. Treasury	BICE	_____	_____
Redemption fund - F. R. notes	BELT	_____	_____
Other cash	BOAT	_____	_____
<u>Total reserves</u>	TEAK	_____	_____
Bills discounted:			
Secured by U.S. Gov't obligations, direct or fully guaranteed	BOWL	_____	_____
Other bills discounted	BORN	_____	_____
<u>Total bills discounted</u>	TIME	_____	_____
Bills bought in open market	BURK	_____	_____
Industrial advances	TURK	_____	_____
U. S. Government securities:			
Bonds	BLUM	_____	_____
Treasury notes	BECK	_____	_____
Treasury bills	BANE	_____	_____
<u>Total U. S. Government securities</u>	TALL	_____	_____
Other securities	TENT	_____	_____
<u>Total bills and securities</u>	TILL	_____	_____
Due from foreign banks	TAFF	_____	_____
F. R. notes of other banks	TANN	_____	_____
Uncollected items	BUDA	_____	_____
Bank premises	TOUR	_____	_____
Other assets	TARE	_____	_____
TOTAL ASSETS	TOTE	_____	_____

LIABILITIES

F. R. notes in actual circulation	TRIM	_____	_____
Deposits:			
Member bank - reserve account	CLAY	_____	_____
U.S. Treasurer - General account	CAKE	_____	_____
Foreign bank	CINO	_____	_____
Other deposits	CORA	_____	_____
<u>Total deposits</u>	TUBB	_____	_____
Deferred availability items	TAPP	_____	_____
Other liabilities including accrued dividends	FILE	_____	_____
TOTAL LIABILITIES	TRAM	_____	_____

CAPITAL ACCOUNTS

Capital paid in	TOME	_____	_____
Surplus (Section 7)	TORK	_____	_____
Surplus (Section 13 b)	TALC	_____	_____
Other capital accounts	TRAP	_____	_____
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	TWIN	_____	_____
Ratio of total reserves to deposit and F. R. note liabilities combined	TEST	_____ %	_____ %
Contingent liability on bills purchased for foreign correspondents	MILD	_____	_____
Commitments to make industrial advances	MENT	_____	_____



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-104
Reg. T-77
305

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 14, 1938.

SUBJECT: Securities Exchange Act Exemption
of Securities Issued by Federal
National Mortgage Association.

Dear Sir:

For your information there is attached a copy of an excerpt from the Federal Register for Wednesday, June 15, 1938, 3 F.R. 1419, indicating that the Secretary of the Treasury has designated "securities issued by the Federal National Mortgage Association under the authority of section 302 of the National Housing Act, as amended" for exemption pursuant to the provisions of section 3(a)12 of the Securities Exchange Act of 1934 regarding "exempted securities."

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-104-a
Reg. T-77

EXCERPT FROM FEDERAL REGISTER JUNE 15, 1938
3 F. R. 1419

Designation of Federal National Mortgage Association
Securities for Exemption Under Securities Exchange Act of 1934

June 10, 1938.

SECURITIES AND EXCHANGE COMMISSION,
1778 Pennsylvania Avenue, N. W.,
Washington, D. C.

Gentlemen:

Paragraph 12 of Section 3(a) of the Securities Exchange Act of 1934 provides in part that the term "exempted security" or "exempted securities" as used in such act shall include "such securities issued or guaranteed by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury as necessary or appropriate in the public interest or for the protection of investors."

In accordance with the provisions of this paragraph, I am designating for exemption securities issued by the Federal National Mortgage Association under the authority of section 302 of the National Housing Act, as amended. This designation for exemption may be revoked, modified, or amended at any time with respect to securities not issued prior to such time.

Very truly yours,

WAYNE C. TAYLOR,
Acting Secretary of the Treasury.

(F.R.Doc. 38-1687; Filed, June 14, 1938; 10:01 a.m.)

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

July 15, 1938

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letter of June 16, 1938 with respect to four cases submitted by the _____ Stock Exchange involving questions under the Board's Regulation T.

Case 1. It is understood that a member of a national securities exchange sells short on the exchange for his own account certain securities at a price of \$1,000. The buying member later agrees to accept a due bill for the securities and a check for \$1,000. Pursuant to the rules of the clearing house, the selling member delivers the due bill and the check to the clearing house, and the transaction is settled. As a part of the settlement, the selling member receives payment for the sale in the usual manner.

The first question is whether the selling member is required by Regulation T to deposit \$500 with the buying member as margin on the short sale. The second question is whether such a deposit of margin would be required if the short sale had been for the account of a customer.

It seems that the transaction in question may properly be considered to consist of two parts, first, a sale of securities and its completion by delivery of the securities, and second, a borrowing of securities for the purpose of effecting the delivery. It appears that the method of settlement is such that the acceptance by the buying member of the due bill is in effect a loan of the securities for the purpose of completing delivery. It is understood that, as a practical matter, the buying member's books often would not differentiate between such a receipt of the due bill and the making of an ordinary loan of securities.

Section 6(h) of Regulation T provides that creditors may borrow and lend securities for the purpose of making delivery in the case of short sales without regard to the other provisions of the regulation. The Board is of the opinion, therefore, that, in the case cited, the selling member need not deposit margin with the buying member and that it is immaterial whether the sale is for the member's own account or for the account of a customer.

Case 2. It is understood that A and B are partners of a firm which is a member firm of a national securities exchange. Transactions in the account of C, a customer of the firm, on a given day create an excess of the adjusted debit balance of the account over the loan value of the securities in the account. The question is whether Regulation T permits A, in his individual capacity, to make an advance of cash to C in the amount of the excess. If the advance were made by A, neither his nor B's capital or drawing account would be reduced.

The Board is of the opinion that Partner A, who is a "creditor" within the meaning of that term as used in Regulation T, may not make the advance to the customer without obtaining the deposit of margin prescribed by the regulation.

Case 3. This relates to a broker who conducts a regular security brokerage business in Canada, acquires membership in a national securities exchange in the United States, and buys and sells both registered and unregistered securities for Canadian and American customers. It involves interpretations of the Act and questions of the extraterritorial effect of statutes, and would depend in each instance upon the particular facts of the case. In the circumstances, the Board feels that it should not attempt to generalize upon the subject.

Case 4. It is understood that customer A and her sons B and C each has an account with a member of a national securities exchange. Each account is operated separately although the mother furnishes all capital. Profits on the sons' transactions are taken by them, but if there is any loss, the mother absorbs it. A guarantees the accounts of B and C. On May 27, 1938, B and C made purchases requiring under Regulation T the deposit of \$1,400 and \$1,200, respectively, as margin. On May 31, 1938, A made a purchase requiring a margin deposit of \$1,700.

On June 1, 1938, A deposited in her account registered securities having a current market value of \$5,250, and B liquidated securities in his account having a current market value of \$2,700. The broker, acting in good faith, considered that the deposit and liquidation satisfied the requirements of Regulation T for the deposit of margin in all three accounts, with the exception of \$70. On June 2, 1938, A purchased registered securities having a current market value of \$1,400. At this time, the maximum loan value of the securities in all three accounts combined exceeded the combined adjusted debit balance by \$2,500, after deducting the \$70 not yet deposited in connection with the previous transactions. The \$70 was deposited in cash on June 3, 1938. The question presented is whether any deposit of margin must be obtained in connection with the \$1,400 purchase on June 2, 1938.

From the facts as stated, it would appear that in this case there were three separate accounts, the accounts of B and C, and the account of A which guaranteed the first two. If this is the case, a deposit of

margin in the guarantor's account could not serve the same purpose as a deposit of margin in the guaranteed account or a liquidation in such account.

In order for a guarantee to be effective under section 6(c) the guarantor's account must contain the necessary excess margin for the transactions in the guaranteed account at the time such transactions are effected, and the necessary adjustments must be made pursuant to section 6(c) at that time, because when the need for a deposit of margin has arisen in an account sections 3(b) and 3(e) of the regulation require that there be either a deposit of margin in the account where the transaction was effected or a liquidation therein. The obtaining of a guarantee, or a deposit of margin or liquidation in a guarantor's account, is of no avail in such circumstances.

It is understood that at the time of the transactions in the guaranteed accounts of B and C the maximum loan value of the securities in the account of guarantor A did not exceed the adjusted debit balance of the account. Therefore, the margin required by the regulation should have been deposited in the guaranteed accounts, or the appropriate liquidation effected therein.

Actually, however, securities having a loan value of only \$2700 were liquidated in the account of B. This transaction released margin of \$1,080 leaving \$320 still to be deposited. In the account of C, no deposit or liquidation was effected.

The deposit in the account of A on June 1, 1938 of registered securities having a current market value of \$5,250 more than satisfied the requirements of the regulation in connection with the purchase in her account on May 31, 1938.

The facts stated do not clearly indicate whether the maximum loan value of the securities in A's account exceeded the adjusted debit balance of the account by \$560 or more on June 2, 1938 when the \$1,400 purchase was made. Such, however, is to be assumed from the fact that when the \$5,250 market value of registered securities was deposited in the account on June 1, 1938 only \$2,834 was required in connection with the previous transaction. If this assumption is correct, no deposit of margin was required in connection with the purchase on June 2, 1938; but, as indicated above, this would depend upon the status of A's account (including adjustments for the guarantees) rather than upon the combined loan value of the securities in all three accounts.

While the foregoing opinions regarding the accounts of A, B and C appear to be correct, given the facts as stated, it may be that other circumstances not revealed would lead to different results. In the first place, the actual arrangements between the broker and A, B, and C may

have constituted one single account with A, divided into three parts for convenience. In that case, the requirements of the regulation would seem to have been satisfied. Secondly, any failure by the broker to comply with the regulation may have resulted from such a mistake made in good faith as is referred to in section 6(k) of the regulation. In that case, the broker should take whatever action may be practicable in the circumstances to remedy the mistake.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

July 20, 1938.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of June 22, 1938, inquiring under what circumstances, if any, a member bank may lawfully make a loan secured by a collateral note for a sum in excess of \$2,500 on which an executive officer of such bank is liable as maker or indorser. Regulation O defines the term "loan" and the term "extension of credit" as including any transaction as a result of which an executive officer becomes obligated to a bank, directly or indirectly by any means whatsoever, by reason of an indorsement on an obligation or otherwise, to pay money or its equivalent; but these terms do not include the acquisition of any evidence of indebtedness through foreclosure on collateral or similar proceeding for the protection of the bank.

It is believed that the question presented in your letter is one upon which it is not feasible to attempt to give a definite answer which would be applicable to all cases which may arise, but in each case the answer must depend upon the particular facts. It turns largely on the matter of good faith and on whether or not the real intention of the parties is to evade the provisions of the law or the regulation.

If the circumstances are such that it appears that the taking of the note of the executive officer as collateral to the loan was merely for the purpose of evading the provisions of the law or the regulation, or if the facts indicate that the loan was made for the accommodation of the executive officer or was in effect an indirect extension of credit to him, it seems clear that the acceptance of the note of the executive officer would be contrary to the intent of the statute and would not be permissible. It is probable that this is true in any case in which the note of the executive officer and the note given by the third party are made simultaneously. On the other hand, if an individual to whom an executive officer has previously become indebted offers the note of the officer to a member bank as collateral to a loan which he desires to obtain and the transaction is entered into by all parties in good faith, the transaction would appear not to be inconsistent

with the purposes of the law and there is believed to be no sufficient reason for regarding it as prohibited by the statute or the regulation. If it was not contemplated by the parties at the time of the making of the loan by the bank that the note of the executive officer would be used as collateral security, and his note, because of subsequent developments, is delivered to the bank as collateral, the transaction would appear to be one for the protection of the bank and not within the prohibition of the law or regulation.

We regret that we can not make a more definite reply to your inquiry on the basis of the facts at hand but we hope that with the statement of principles above expressed your bank will be able to pass upon the particular transaction referred to in your letter. If in the consideration of the matter any question should develop upon which you feel that it is desirable to have an expression from the Board, we would, of course, be glad to consider it upon presentation of all of the pertinent facts.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

July 19, 1938.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of June 15, 1938, inclosing a letter from Mr. _____, Assistant Trust Officer, _____ Trust Company of _____, _____, presenting a question which arises in connection with a common trust fund operated by his institution and which involves an interpretation of the following provisions of section 17(e)(5) of the Board's Regulation F:

"No funds of any trust shall be invested in a participation in a Common Trust Fund if such investment would result in such trust having an interest in the Common Trust Fund in excess of 10 per cent of the value of the assets of the Common Trust Fund, as determined by the trust investment committee, or the sum of \$25,000, whichever is less at the time of investment."

The Board is of the opinion that in the situation outlined by Mr. _____, where the present value of the units of participation in a common trust fund which are held by a trust is \$25,000 or more, the regulation does not permit the investment of additional funds of the trust in the common trust fund, although the amount of funds of the trust previously invested therein is less than \$25,000.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-108

314

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 4, 1938.

Dear Sir:

There is inclosed for the information of your bank a copy of a letter addressed by the Board to the first vice president of a Federal Reserve bank relating to the conclusion of the Board that effective August 16, 1938, the salary of any officer or employee of a Federal Reserve bank dying while in the service of the bank should be paid only to and including the date of his death.

Very truly yours,

A handwritten signature in cursive script that reads "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

August 3, 1938.

Mr. _____,
First Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letter of July 21, 1938 requesting the Board to consider changing its ruling of June 19, 1931 (X-6915) which now reads as follows:

"In the event of the death of an officer or employee of a Federal Reserve bank, the salary of such officer or employee should be paid only up to the next succeeding pay day."

The Board has considered the suggestion that it authorize the payment of 15 days' salary after date of death regardless of the time of month at which death occurs and in so doing has taken occasion to review the circumstances surrounding the adoption of the rule in the first instance and the effect of its application in the present changed circumstances.

Briefly recounting the same, it will be recalled that under date of April 13, 1931 (X-6859) the Board, for reasons therein stated, submitted the following topic for the consideration of the Governors at their next ensuing conference:

"Compensation for officers and employees of Federal reserve banks after death and during periods of incapacitation and extended illness. On one or two occasions in the past, upon the death of an officer of a Federal reserve bank, the directors have voted to make a payment to the widow or estate of the deceased officer equal to several months salary. The Federal Reserve Board has been advised by its Counsel that in his opinion such payments are ultra vires, but that the question is a close and doubtful one as there is no specific provision of law covering the matter. A question of policy is also involved inasmuch as all of the Federal reserve banks are carrying life insurance policies covering their officers and employees. The Board considers it important that some definite understanding should be arrived at concerning this matter and, if possible, also regarding the matter of salary payments to officers and employees absent on account of illness or injury not received in the line of official duty."

This resulted in the following recommendation from the Governors' Conference to the Board:

"Careful consideration was given to the matters referred to in the board's letter X-6859, particularly the legal questions involved, and also the desirability of arriving at a

definite understanding as to a general policy to be followed by each of the Federal Reserve banks. After a general discussion, in which the members of the Federal Reserve Board participated, it was

VOTED that it is the sense of the conference:

1. That in the event of the death of an officer or employee of a Federal Reserve bank, his salary should be paid up to the next succeeding pay day;
2. That the question whether any further increase in life insurance for officers and employees of a Federal reserve bank is desirable is a matter for the determination of the Board of Directors of that bank subject, if necessary, to the approval of the Federal Reserve Board.
3. That this whole question inevitably raises the propriety of further consideration of a pension plan, and that because of the difficulties and delays attached to the consummation of a group pension plan, the Federal Reserve Board should be asked whether it would approve of a reasonable retirement annuity or insurance plan for individual reserve banks along lines that are now considered appropriate and proper for large corporations in this country employing large numbers of workers."

Following the receipt of this recommendation, the Board issued its ruling of June 19, 1931.

It is to be observed that at that time it was recognized that the question being considered was closely related to the broader question of the propriety of establishing a retirement annuity or insurance plan for officers and employees. When it is considered that now a comprehensive plan, which, among other things, makes provision for a payment equal to a salary for a year from the date of death to the estate or beneficiary of each member of the retirement system in the service of a bank at the time of his death, has been established and is in operation, the Board is impressed with the fact that to continue the practice authorized in its ruling of June 19, 1931, would unjustifiably duplicate the payments being made by the banks for the benefit of the individual officers and employees.

Accordingly, the Board has concluded that effective August 16, 1938, salary of any officer or employee dying while in the service of a Federal Reserve bank should be paid only to and including the date of his death. The other Federal Reserve banks are being advised to this effect.

Very truly yours,
(Signed) Chester Morrill
Chester Morrill,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-109
Reg. F-17

317

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 9, 1938.

Dear Sir:

For your information there is inclosed herewith a copy of the text of a ruling of the Board of Governors which will be printed in the Federal Reserve Bulletin with regard to the approval of the acceptance of trusts by a national bank under the provisions of section 6(b) of the Board's Regulation F.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Inclosure.

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TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Approval of Acceptance of Trusts by National Bank

The Board recently considered an inquiry relating to the ruling published at page 440 of the Federal Reserve Bulletin for June 1938 to the effect that the directors or the appropriate committee of a national bank must approve the acceptance of trusts by the bank prior to their acceptance rather than subsequent thereto in order to comply with the following provision of section 6(b) of the Board's Regulation F:

"* * * The acceptance of all trusts shall be approved by the board of directors or a committee appointed by such board, and the closing out or relinquishment of all trusts shall be approved or ratified by the board of directors or a committee appointed by such board; and such committee or committees shall be composed of capable and experienced officers or directors of the bank. Any such approval or ratification shall be recorded in the minutes of the board of directors or of such committee as the case may be."

In commenting upon the considerations which prompted the incorporation of the above-quoted provision in the regulation, the Board noted that such provision conforms to the principle contained in the "Statement of Principles of Trust Institutions", approved by the Executive Council of the American Bankers Association in 1933, to the effect that the responsibility for the investment of trust funds should not be reposed in an individual officer or employee, but all investments should be made, retained, or sold only upon the authority of a committee composed of capable and experienced officers or directors of the institution. The Board stated that the question whether or not a particular trust should be accepted by a bank is a matter of such importance that

it felt that this principle of collective judgment should be applied in such a case as well as in the case of investment of trust funds, and that if such collective judgment should not be exercised until after a new trust has been accepted it might be embarrassing and in some instances impracticable for the bank to relinquish the trust.

As a matter of practical operation, attention was called to the fact that the board of directors of a bank, if it so desires, may designate a special committee for the purpose of passing on the acceptance of new trusts and it is not necessary that such committee be composed of directors of the bank. In fact, under the regulation, the committee may be composed exclusively of capable and experienced officers.

The Board stated that it considered it to be consistent with the provisions of the regulation for a new trust to be accepted by a bank upon the written approval of a majority of the members of the appropriate committee without a meeting of the committee, provided such action is promptly reported to the committee and the report incorporated in its minutes. It was stated that it was understood, of course, that at the time the acceptance is approved in writing all of the available members of the committee will be given an opportunity to pass on the acceptance. It was noted that the Board's position in this matter was similar to that taken in a ruling published at page 391 of the Federal Reserve Bulletin for May, 1937, with reference to the actions of the trust investment committee provided for in section 6(c) of the regulation.

It was also noted that the Board had ruled that alternates might be appointed for members of the trust investment committee and that when the regulation was amended effective December 31, 1937, a footnote containing the following statement was included: "* * * alternates appointed by the board of directors may serve in place of regular members of the committee who are unable to serve on account of vacations, illness, or other good and sufficient reasons if the minutes of the committee show the reason for the service of such alternate in place of the regular member". The Board expressed the opinion that the appointment of alternates may properly be made for the committee provided for in section 6(b) in the circumstances described in the language just quoted.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

August 11, 1938.

Mr. _____, President,
_____ Bank and Trust Co.,
_____, _____.

Dear Sir:

This refers to your letter of August 1, 1938, to Mr. _____, requesting a ruling with respect to a question which has arisen in connection with the operation of a common trust fund by your bank.

You state that the assets of the common trust fund are valued monthly and that among the assets are a number of Federal Housing Administration insured mortgage loans which provide for monthly payments. You inquire whether, in order to comply with the Board's Regulation F, it is necessary to segregate, on each valuation date, any of such loans on which payments due on the first day of the month have not been paid during the month.

Regulation F does not require the segregation of assets except as it may be necessary in order to permit new investments in participations in the fund or the withdrawal of participations in cash in compliance with the requirements hereinafter described. Section 17(c)(2) of Regulation F provides that funds of a trust shall not be invested in a participation in a common trust fund if the trust investment committee finds that any of the investments comprising the common trust fund is "one in which funds of such trust might not lawfully be invested at that time." Section 17(c)(6), in dealing with the withdrawal of participations, provides that, if the trust investment committee determines that any investment remaining in the common trust fund "would be unlawful for one or more participating trusts if funds of such trusts were being invested at that time", no distribution shall be made in cash until any such unlawful investment shall have been eliminated from the common trust fund.

Therefore, it is not necessary to segregate assets on a valuation date unless additional funds are being invested in participations in the common trust fund or participations are being withdrawn in cash and it is not then necessary unless, on the one hand, such assets would be unlawful investments for funds of the

-2-

trusts acquiring participations or, on the other hand, would be unlawful investments for funds of trusts which then hold participations. The question whether a particular loan or class of loans would be an unlawful investment for funds of a particular trust is one which must be decided in the light of the terms of the trust and the applicable State law and upon which the Board cannot undertake to rule.

Copies of this correspondence are being furnished to the Federal Reserve Bank of _____ and, if you have any further questions, it will be appreciated if you will take them up with that institution in order that it may answer them if it is in a position to do so or refer them to the Board with such information as may be needed by it.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

August 16, 1938

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letter of August 6, 1938, regarding two questions under Regulation U.

The first question relates to a situation in which a bank makes a loan to a broker or dealer who is a member of a national securities exchange, or who transacts business through the medium of such a member, for the purpose of enabling such broker or dealer to purchase certain registered stocks directly from individual or other investors. It is understood that such securities would be purchased directly from the owners, who are neither members of a national securities exchange nor brokers or dealers who transact a business in securities through the medium of any such member. In other words, such sellers are of the general public and there is no question of their having any direct or indirect connection with any member, broker or dealer.

It is the view of the Board that a loan by a bank to enable the borrower to purchase stocks in the circumstances described would be exempt from Regulation U under section 2(e) of the regulation which exempts:

"Any loan for the purpose of purchasing a stock from or through a person who is not a member of a national securities exchange and is not a broker or dealer who transacts a business in securities through the medium of any such member, or for the purpose of carrying a stock so purchased;"

For your confidential information it should be added that the Board recognizes that this exemption, like certain other provisions of the regulation, contains possibilities of abuse which might in time require appropriate amendments; and any information of this nature that may develop from time to time naturally is of interest to the Board.

While the answer to the first question would not depend upon whether or not the security purchased had been called for retirement,

in the second case this is an important consideration. In this case a broker or dealer purchases certain shares of a registered preferred stock after the stock has been called for retirement. A bank, acting for the broker or dealer, takes up the stocks, pays for them, and delivers them to the issuer for retirement. The question is whether an advance made for the broker or dealer by the bank in taking up the securities would be covered by section 2(f) which exempts:

"Any temporary advance to finance the purchase or sale of securities for prompt delivery which is to be repaid in the ordinary course of business upon completion of the transaction;"

The Board is of the opinion that if the call for retirement has already been issued when the securities are purchased, and in addition the securities are promptly delivered to the issuer for such retirement, a loan of the type described would come within the exemption. On the other hand, if the stocks have not been called for retirement when they are purchased, or if they are not promptly delivered to the issuer for retirement, the exemption would not apply, unless, of course, the transaction qualifies as an ordinary cash purchase under the conditions described in section 2(f).

It does not appear that any other exception specified in section 2 would apply to the facts stated in your letter although, as you indicate, the loans detailed on the page accompanying your letter may have involved a "mistake made in good faith" as described in section 3(h).

It is to be noted that in connection with the exemptions mentioned above, as at other points in the regulation, it is necessary to distinguish between the purpose of a loan and the collateral for a loan. The exceptions in section 2(e) and 2(f) relate to purpose. Thus they exempt loans of the types described, but they do not increase the loan value to which securities of the type described are entitled when they are collateral for a loan that is subject to the regulation.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-112
325

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 24, 1938.

Dear Sir:

Inclosed are two copies of the revised form of report of examination which the Board has approved for use, effective September 1. A supply of the forms sufficient to provide for examinations during the next few months is being forwarded by express. Additional supplies may be obtained from the Board's Division of Examinations upon request. Advice of the cost of the forms will be sent to you as soon as possible.

In revising the form of report an effort has been made to conform strictly with the spirit, as well as with the letter, of the recent agreement regarding bank examination procedure as announced by the Secretary of the Treasury and published in the July Bulletin. The agreement refers specifically to the classification only of loans and depreciation in securities, and the definitions of the loan classifications as set forth in the agreement have been copied verbatim at the head of the schedule on page 11. On page 3 of the report, however, brief general definitions of the classifications applicable to all types of assets have been given. The definitions of classifications I, III, and IV as shown on page 3 are identical with the definitions incorporated in the revised forms of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The definition of classification II on page 3 is similar to that in the Comptroller's report but differs from the definition in the Federal Deposit Insurance Corporation report in that it contains no specific reference to securities, while the Federal Deposit Insurance Corporation definition includes "securities which lack recognized investment merit" among the assets to be classified as II.

It will be expected that the classifications of assets by examiners for the Federal reserve banks will be in accordance with the definitions set forth in the report and that the examinations will be conducted in strict conformity with the terms, spirit, and purposes of the agreement. In this connection, it is requested that, especially at first until the use of the revised form is well established, the officers in charge of the bank examination departments

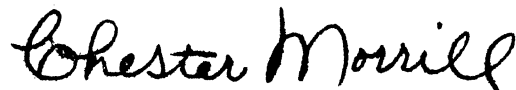
review the reports carefully, particularly the classifications of assets, in order to insure that the examinations are being made in conformity with the agreement.

Included in the supplies furnished are some pages without headings but ruled for columns and some blank pages to be used for such supplemental schedules or comments as may be considered necessary or advisable, thus providing flexibility in the form of report. One of the purposes of having the forms printed in Washington, however, is to attain uniformity in the form of reports used by the twelve Federal reserve banks and it is requested, therefore, that no schedules be incorporated in a report of examination which would be inconsistent with the schedules as printed in the forms furnished.

Attached is a memorandum prepared by the Board's Division of Examinations with respect to some details in connection with the new form. A separate letter will deal with the appraisal of securities and the classification of depreciation in securities.

A supply of the forms for use in the examination of trust departments will be forwarded as soon as they are available, which, it is anticipated, will be within the next two weeks.

Very truly yours,



Chester Morrill,
Secretary.

Inclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

August 24, 1938

Memorandum with respect to the revised form
of report of examination (F. R. 410-38)

In the interest of uniformity the following comments, explanations, and suggestions are offered with respect to certain details of the revised form of report of examination which has just been sent to the Federal reserve banks for use effective September 1, 1938.

Binding

The forms have not been punched, as it is anticipated that in most cases the reports will be of a size which will permit of their being stapled. In this connection it is understood that there are hand machines which will staple reports up to approximately one-half inch in thickness. Larger reports may be tied with string somewhat in the fashion of the old shoestring binders. Included with the forms sent out was a supply of bookbinders' linen adhesive tape, which needs only to be moistened before application and does not require the use of a press. The tape has been furnished in two widths, 2 inches and 2½ inches. A 3 inch width can be obtained if necessary.

Transit Number

The transit number at the upper right hand corner of the pages is merely for identification purposes in assembling the reports and ordinarily the number will not be visible in a bound report.

Index

Schedules to be omitted. It will be noted that under the captions "Affiliated organizations" and "Loans and discounts" certain schedules are listed followed by the parenthetical phrase "if any". Pages 21(a), 11(a), 11(b), and 11(c) are to be inserted in a report only if a schedule on the page is to be filled out. If any schedule on such pages is not used, the fact should be noted by the insertion of the word "none" in the index.

Trust Department. The following notations on the index should be made as applicable -

"None" - If bank has no trust department or if it is not exercising trust powers

"Green Section" - If report of the trust department is attached

"Separate report" - If a separate report is submitted

"Not examined" - If such be the case.

Page 1

Other Cash Items in Process of Collection. This should include only items which conform to the definition of "Cash items in process of collection", as given in Regulation D.

Valuation Reserves. Reserves should be treated as valuation reserves, i.e., deducted from the respective asset accounts, only if the bank treats them in such manner in its published reports, and all reserves so treated by the bank should be regarded as valuation reserves for the purpose of the report of examination.

Reserve for Amortization of Bond Premium. If the required provision for amortization of bond premiums is made through credits to a reserve account rather than through charge off, such reserve should be treated in the report of examination as a valuation reserve if so treated by the bank. If the bank, however, does not deduct such reserve from the asset account, the reserve should not be included with reserves for contingencies or with other segregations of capital account but should be shown as a separate item among "Other liabilities".

Page 1-A

Page 1-A should not be included in the reports forwarded to the banks examined but should be included in the reports forwarded to the Board.

Page 2

Page E

The signature line has been omitted from these pages in order that the signature of the examiner may come at the conclusion of his remarks, whether on these pages or on continuation sheets.

Page 12

It will be noted that page 12 is furnished in alternative form.

The regular page 12 headed "Real estate loans subject to special comment" is to be used where all loans subject to classification

as II, III, or IV are listed on page 11, and page 12 will be used, as it has been in the past, as a memorandum of (1) loans which should be carried as other real estate; (2) loans which are considered as potential other real estate; and (3) loans which have been taken or are held in violation of statutory provisions. This is expected to be the regular procedure and to be used where practicable.

The alternative page, 12-X, headed "Real estate loans subject to special comment or classification" is furnished, however, for use in cases where, because of the nature of the bank's business, the seriousness of the real estate loan problem, or other good reason, it is considered advisable to list real estate loans subject to classification in a separate schedule. In such cases, of course, the totals of the classifications of the real estate loans should be transferred to page 11 and then included in the grand total of all loans classified as II, III, and IV.

Continuation Sheets

Continuation sheets should be designated as 11-(1), 11-(2), etc., as combinations of numbers and letters such as 11(a) have been used for designation of supplemental schedules.

Page C

It will be noted that the answers to questions 7, 8, and 9 on page C of the confidential section will summarize all violations of the Federal statutes, the Board's regulations, or the conditions of membership as disclosed by the examination. This is in accordance with suggestions received that a complete list of any such violations be shown in one place in the report.

Reorders

The forms have been printed by multilith process in the Board's duplicating department and, as stated in the Board's letter, S-112, additional supplies may be obtained from the Board's Division of Examinations. It is requested that needs for additional supplies be anticipated and that orders be sent in sufficiently in advance of requirements to permit their being handled in the ordinary course of business rather than as rush orders which might interfere with other work.

Orders should refer to the form number which appears in the upper left hand corner of the page.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-113

330

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1938.

Dear Sir:

This supersedes previous letters regarding the classification, in reports of examination, of depreciation in securities.

The division of securities into four groups for examination purposes was recognized in the agreement regarding examination procedure announced by the Secretary of the Treasury and published in the July Bulletin. The definitions of the four groups as given on page 8 of the revised form of report of examination, recently sent out to the Federal reserve banks, are in conformity with the agreement and are not here repeated in detail.

All issues of bonds in default, either as to principal or interest, are to be included in Group 3.

With respect to other general market obligations, the agreement provides that issues in the four highest grades are to be included in Group 1 and that issues below the four highest grades are to be included in Group 2. In case of doubt as to the classification of a particular rated issue, the examiners should, before final determination of classification, take into consideration the available credit data as well as the ratings of more than one investment service.

The agreement specifically recognizes that unrated securities (not in default) shall be classed as Group 1 or Group 2 in accordance with the quality of the respective issues. In determining whether or not an unrated security is distinctly or predominantly speculative, consideration should be given to the record of the issue, other credit data available, and the comparative classification of rated issues of similar quality.

As stated in the agreement and as indicated in the revised form of examination report, Group 1 securities are not to be priced in the report either individually or in total, and no

appreciation or depreciation in such securities is to be shown in the report.

Group 2 securities are to be valued at the average market price for the 18 months preceding the examination. It is expected that average prices for 18 month periods will be shown in the publications of the various investment services and will appear about the middle of each month beginning with September. In the interest of uniformity, average prices as so published should be the basis for the valuation of Group 2 securities, and the figures published in one month should be used until publication of the averages in the following month. Pending the first publication of such averages, averages obtained from other sources believed to be reliable may be used. If not otherwise available, the averages should be computed by the Federal reserve bank by taking the simple average of the high price and low price for the period.

The net depreciation in Group 2 securities, based on the average prices, should be included in Classification III in the recapitulation of classified assets on page 3 of the report of examination. Inasmuch as 50 per cent of Classification III is deducted in arriving at the total of adjusted capital, such classification will conform to the provisions of the agreement that 50 per cent of the depreciation in Group 2 securities, based on the 18 month average, be deducted in arriving at the net capital position.

Group 3 and Group 4 securities, i.e., defaulted bonds and stocks, are to be priced on the basis of current market quotations and the net depreciation in the two groups combined is to be classified as IV. In other words, for the purpose of computing depreciation to be classified as estimated loss, Groups 3 and 4 are to be regarded as one group.

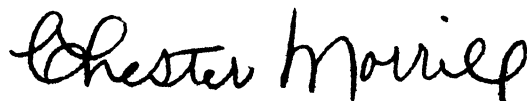
In the case a bank has established a valuation reserve or made an unallocated charge-off against the total account rather than against specific issues, such valuation reserve or unallocated charge-off should be considered as applying first to Groups 3 and 4 securities and then to Group 2 securities, thus reducing, to the extent of such reserves or unallocated charge-off, the amount of depreciation subject to classification as IV or III.

The agreement also refers to the establishment and maintenance of adequate reserves. If analysis of the list of securities indicates that a bank is faced with serious problems and probable future losses in its investment account, comment should be made as to the situation and the adequacy of the reserves to

provide for the write-off of depreciation should impending defaults materialize and to take care of losses realized in making shifts in the portfolio as opportunity permits in order to achieve a better balance and stronger position.

The agreement recognizes that profits from the sale of securities should not be regarded as ordinary or recurring income and that, until losses have been written off and adequate reserves established, such profits should not be used for any purpose other than to provide for charge-offs or reserves. Accordingly it is suggested that the answer to question 4 on page 6 of the examination report include a statement as to the amount of net profits from the sale of securities since previous examination and the disposition of such profits.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-114
333

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 7, 1938.

Dear Sir:

Inclosed are three copies of the revised form of report of examination of trust departments, and three copies of a special form (Page T-1-(S)), referred to in the Board's letter of August 24, 1938 (S-112). These forms have been approved by the Board for use by the Reserve banks in the examination of trust departments of State member banks. A supply of the forms is being forwarded by express. Additional supplies may be obtained from the Board's Division of Examinations upon request.

In revising the form of report, consideration was given to the many valuable suggestions received from the various Reserve banks in connection with the draft forwarded on October 9, 1937, which was based largely upon the form previously developed by the committee of trust examiners. The form is designed to obtain as high a degree of uniformity as practicable in reports of examinations made by examiners for the various Reserve banks and at the same time be adaptable to the widely varying sizes of trust departments, types of fiduciary business, and laws involved in the different States. Hence, with the exception of statements of individual and corporate trusts and of earnings and expenses, no attempt has been made to provide formal schedules. It is expected that examiners, in preparing their reports, will include such supporting schedules, with appropriate references thereto in the questionnaire, and such additional comments as may be found desirable in each examination. A quantity of blank green pages has been forwarded for that purpose.

A short form of report has been approved for use in examinations of institutions having a very limited volume of fiduciary accounts and activities, in connection with which many of the comments and answers to questions provided for in the regular or long form would not be applicable. It is contemplated that in each such examination the trust department section of the report will consist of the short form of questionnaire and comments (Page T-1-(S)), the regular statement of individual trusts (Page T-2), the regular

statement of corporate trusts (Page T-3), if applicable, and the confidential section (Page T-A), if applicable, and such additional follow sheets as may be necessary for the examiner's comments and conclusions and signature, as in the case of the other forms of report.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-115
Sec. 5136 R.S.-13

335

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 8, 1938.

Dear Sir:

The Board of Governors recently received from a State member bank a request for an interpretation of section II(6) of the Investment Securities Regulation issued by the Comptroller of the Currency. This section reads as follows:

"Purchase of securities convertible into stock at the option of the holder or with stock purchase warrants attached is prohibited if the price paid for such security is in excess of the investment value of the security itself, considered independently of the stock purchase warrants or conversion feature. If it is apparent that the price paid for an otherwise eligible security fairly reflects the investment value of the security itself and does not include any speculative value based upon the presence of a stock purchase warrant or conversion option the purchase of such a security is not prohibited."

The pertinent portion of the letter from the State member bank reads as follows:

"Paragraph 6 of Section 2 states in part, 'If it is apparent that the price paid for an otherwise eligible security fairly reflects the investment value of the security itself and does not include any speculative value based upon the presence of a stock purchase warrant or conversion option, the purchase of such a security is not prohibited.' We will first assume, therefore, that any convertible bond to be eligible for purchase must be one in which the investment characteristics are not 'distinctly or predominantly speculative'. In short, the obligor's credit status must be such that its security cannot be said to be one in which the speculative characteristics are predominant. We presume that this is an interpretation on which you would agree?"

-2-

"The point on which we would like to have clarification as to your intentions in examining procedure concerns that clause in Paragraph 6, Section 2, which states that the purchase of convertible or warrant bonds is prohibited 'if the price paid for such security is in excess of the investment value of the security itself, considered independently of the stock purchase warrants or conversion feature.' To be still more specific, what will be your procedure in determining whether the price of a security is in excess of the investment value of the security itself, considered independently of the stock purchase warrants or conversion feature? Which of the following procedures or which other procedures will you adopt?

"1. Will the price paid for a convertible bond be deemed to reflect the presence of a conversion option when, and only when, the security (generally common stock) into which the bond is convertible has passed in market price the figure at which the bond is convertible (the parity figure)?

"By way of illustration, if a bond is convertible into common stock at 25 and the bond is purchased when the stock is selling at 24 $\frac{7}{8}$ or less, will the bond be eligible under this particular paragraph, assuming always, of course, that it is 'otherwise eligible'?

"2. If a company has two issues of bonds outstanding under the same mortgage, one issue of which is convertible and one issue of which is not, will the convertible issue be deemed to be reflecting the presence of the conversion privilege if it sells to yield any smaller percentage return (that is, at a higher price) than the issue which is not convertible, however remote the conversion parity may be.

"Assume Series A and Series B bonds are issued under the same mortgage of a company whose obligations are 'otherwise eligible'. Assume Series B bonds are convertible into the stock at 50; assume Series A bonds are not convertible. Assume that the maturity dates and the coupon rates of both series are identical, both being 4% bonds, say, due 1946. If Series B, the convertible bond, sells at 80 and Series A sells at 75, and the common stock into which they are convertible is at 17 (33 points away from the conversion parity), will Series B bonds be eligible?

-3-

"3. Assume a somewhat similar situation as exists in 2 above, but further assume that there is no comparable mortgage bond with which one can compare in order to ascertain what is the true investment merit. What will be the procedure for determining whether a bond does reflect the existence of a conversion privilege? In short, assume that there was a Series B bond but no Series A bond, what procedure would you use for determining whether the Series B bond reflected the existence of a conversion privilege?"

Since the matter involved an interpretation of a regulation issued by the Comptroller of the Currency, a copy of the letter from the State member bank was furnished to the Acting Comptroller with a request for an expression of his views regarding the questions presented therein. Under date of August 29, 1938, the Board of Governors received from the Acting Comptroller a letter which stated the following (the references to paragraphs "1", "2", and "3" are to the above-quoted numbered paragraphs of the letter from the State member bank):

"Mr. _____ is correct in assuming that any convertible bond or bond with stock purchase warrants attached to be eligible for purchase must be one in which the investment characteristics are not distinctly or predominantly speculative; in short, the obligor's credit status, i.e., the credit status of the particular bond issue in question, must be such that the security cannot be said to be one in which the speculative characteristics are predominant.

"It is not believed that the illustration recited by Mr. _____ in his paragraph "1" at the top of page 2 of his letter could be used as the sole test in determining whether a bank had paid a price for such a security which was in excess of the investment value of the security itself, considered independently of the stock purchase warrants or conversion feature. If, with all the available facts before him, the Examiner deemed that a bank he was examining had paid a price for such a security which was in excess of the investment value of the security itself, considered independently of the stock purchase warrants or conversion feature, he would report the security as having been illegally purchased by the bank.

"It would appear to be clear that in the illustration recited by Mr. _____ in his paragraph "2" on page 2 of his letter that the 'Series B' bond would not be eligible as it would appear to be clear that the bank would have paid \$5 a hundred for the stock purchase warrants or conversion privilege.

-4-

"In answer to Mr. _____'s paragraph "3" on page 2, it can only be repeated that when an Examiner, with all the available facts before him, deems that the bank he is examining paid a price for such a security which was in excess of the investment value of the security itself, considered independently of the stock purchase warrants or conversion feature, he would report the security as having been illegally purchased by the bank."

Very truly yours,



S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

339

S-116

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 9, 1938

Dear Sir:

Analysis Form 212 does not conform in a number of respects to the revised form of examination report recently adopted and it is proposed to discuss at the forthcoming Examiners' Conference a revision of Form 212 which would represent a material simplification as compared with the present form.

Pending issuance of the revised Analysis Form 212, the use of the present Form 212 in connection with reports of examination prepared by examiners for the Federal reserve banks on the new examination report form may be discontinued. It is requested, however, that in connection with each such report of examination there be forwarded a memorandum containing the comments as called for on the last page of the analysis (Form 212-c).

Pending revision of Form 212, analyses of reports of independent examinations made by State authorities should be forwarded on the present form.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", written over a horizontal line.

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-117
340

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 26, 1938.

Dear Sir:

In compliance with the request contained in the Board's letter of February 4, 1933 (B-876), all Federal Reserve banks now forward to the Board, not later than the fifteenth of each month, a list of all holidays scheduled to be observed by banks in the several districts in the following calendar month.

It is requested that the official opening and closing hours of the Federal Reserve bank and each branch, if any, be given in connection with the above mentioned report for the month of November and that each subsequent monthly report contain advice either to the effect that there has been no change in opening and closing hours or that specified changes have been made or are in contemplation.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", written in a cursive style.

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-118 341

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 11, 1938

Dear Sir:

In the Board's letter of August 24, S-112, transmitting copies of the revised examination report form and advising that a few months' supply of the forms was being forwarded for use, it was said that advice as to the cost of the form would be forwarded later. This letter is to furnish that information and to explain the method of prorating the costs of the form among the various Reserve banks.

As you may know, the Board has installed multilith equipment and the report forms were printed on that equipment by the Board's employees.

The cost of the new form, including the trust form, is as follows:

Composition:

Printer's proofs (these were furnished by a firm of compositors and from the proofs the multilith plates were made)	\$353.20	
Multilith plates	195.00	
Printing covers for the report	<u>40.00</u>	
		\$588.20

Paper and miscellaneous supplies:

Paper	\$1,372.56	
Cover stock	105.90	
Binding tape	<u>50.50</u>	
		\$1,528.96

Total cost \$2,117.16

At the time we were not prepared to make the multilith plates and these were obtained from outside sources. Had we been prepared, as we now are, the cost for this item would have been materially less.

The following statement shows the distribution of the costs among the various Federal Reserve banks:

	<u>Paper and supplies</u>		<u>Composition, etc.</u>	<u>Total</u>
	<u>Percent</u>	<u>Amount</u>		
Boston	5	\$ 76.45	\$ 49.02	\$125.47
New York	20	305.78	49.00	354.78
Philadelphia	10	152.90	49.02	201.92
Cleveland	10	152.90	49.02	201.92
Richmond	5	76.45	49.02	125.47
Atlanta	5	76.45	49.02	125.47
Chicago	15	229.33	49.00	278.33
St. Louis	5	76.45	49.02	125.47
Minneapolis	5	76.45	49.02	125.47
Kansas City	5	76.45	49.02	125.47
Dallas	5	76.45	49.02	125.47
San Francisco	10	152.90	49.02	201.92
Totals	100	\$1,528.96	\$588.20	\$2,117.16

Every Federal reserve bank except the Federal Reserve Bank of Richmond should pay this assessment by transferring the amount shown in the last column of the statement through the Inter-district Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond should pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System.

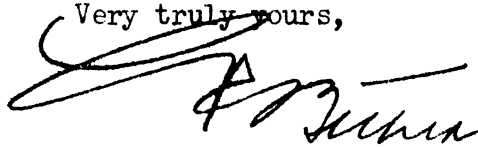
As will be noted, the costs of composition have been prorated equally among the Reserve banks, inasmuch as each bank would have had to incur composition costs if each bank had arranged for the printing of its own forms. The costs of the paper and supplies have been distributed on the basis of an estimate of the amount which will be used by each Federal reserve bank, the estimate being based on the number and size of the State member banks in the various districts.

An estimated year's supply of paper was purchased. Only a portion of the stock has been used and additional supplies from such stock will be furnished without further cost to the Reserve banks. Costs of future purchases of paper will be prorated among the various banks on the basis scheduled above and forms printed from such supplies will be furnished without additional costs, except that in the case of substantial revision of the form composition costs will be prorated.

The Board is interested in comparing the cost of the form prepared here with an estimate of what it would have cost the Reserve banks to prepare their own forms individually. It will be appreciated, therefore, if each Reserve bank will determine and advise the Board as to what the approximate cost would have been to the bank of preparing the new forms.

It is requested that this estimate be not only for the first printing, but to cover, say, a five-year period. The latter estimate would no doubt involve some cost of composition for reprints, whereas under the present procedure no such expense should be incurred except in connection with revisions.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", written over the typed name below.

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-119
Reg. H-13

344

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 14, 1938.

Dear Sir:

There is inclosed for your information copy of a letter which is today being sent to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, advising him that a State member bank which desires to engage in the small loan business will not be required to obtain the permission of the Board under the general condition of membership.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

October 14, 1933.

Mr. M. J. Fleming, President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Fleming:

Reference is made to Mr. _____'s letter of September 30, 1933, advising that The _____ Savings & Trust Company, _____, _____, proposes to amend its articles of incorporation so as to permit the bank to engage in "special plan banking" and recommending that the Board approve the proposal under the provisions of the general condition of membership to which the bank is subject, which provides that, except with the permission of the Board, the bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership. According to Mr. _____'s letter "special plan banking" is the term used by the (State) Statutes for small loan business and it is noted that the banking laws of that State permit banks upon suitable amendments to their articles of incorporation to establish departments for the transaction of business of this type.

The Banking Act of 1933 made Morris Plan banks and other incorporated banking institutions engaged in similar business eligible for membership in the System and during recent years commercial banks to a noticeable extent have broadened their activities to include the making of small or personal type loans, and have established separate departments to facilitate the functioning of such business. While such extension of activities may to some extent constitute a change in the general character of the bank's business and in some cases, at least, involve a change in the scope of the corporate powers exercised by the bank, the change is not felt to be such as would come within the intent of the general condition of membership.

Accordingly, banks desiring to engage in such activity will not be required to obtain the permission of the Board under the general condition of membership. It is assumed, of course, that in such cases any necessary approval of the State authorities will be obtained and that the business will be conducted in strict accordance with the applicable State laws.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

S-120
Sec. 5136 R.S.-14

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

October 17, 1938.

Mr. _____, Executive Secretary,
_____ Municipal Housing Authority,
City Hall,
_____, _____.

Dear Sir:

This refers to your letter of October 12, 1938, requesting advice as to whether a State member bank of the Federal Reserve System may underwrite bonds issued by the (name of city) Municipal Housing Authority for the erection of a slum-clearance project in the City of _____ under the regulations of the United States Housing Authority.

Under the provisions of section 9 of the Federal Reserve Act, State member banks of the Federal Reserve System are subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under section 5136 of the Revised Statutes. This section of the Revised Statutes forbids the underwriting of all kinds of securities except those specifically exempted from the provisions of the section. It is our understanding that bonds issued by a municipal housing authority are not general obligations of a State or political subdivision thereof and, accordingly, that these bonds do not fall within the class of obligations exempted by the statute. It follows, therefore, that State member banks may not underwrite such bonds.

Although your question was whether a State member bank may underwrite these bonds, it seems probable that you also desire information upon the question whether a State member bank may purchase such bonds for purposes of investment. The office of the Comptroller of the Currency has ruled that the bonds, notes, or debentures issued by public housing agencies and representing the 10 per cent local participation in the cost of low-rent housing or slum-clearance projects under the United States Housing Act of 1937 are investment securities which are eligible for purchase by a national bank within the limitations as to amount prescribed by section 5136 of the Revised Statutes. It is our view that State member banks of the Federal Reserve System also have authority to

purchase, for purposes of investment and subject to the limitations stated above, the bonds, notes, or debentures issued by such public housing agencies.

There is inclosed herewith for your information a copy of the Investment Securities Regulation of the Comptroller of the Currency which contains at page 3 the provisions of section 5136 of the Revised Statutes and section 9 of the Federal Reserve Act.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

348

S-121

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 25, 1938.

Dear Sir:

The Board understands that, at their meeting in September, the Presidents of the twelve Federal Reserve banks expressed the view that, as a matter of policy, all of the Federal Reserve banks, for the time being at least, should conform to the standards established by the Fair Labor Standards Act of 1938, regardless of whether or not the provisions of the act may later be held to be inapplicable to the Federal Reserve banks. The Board concurs in the view that this is a desirable and proper policy for the Federal Reserve banks to pursue at this time.

The considerations which led to the adoption of this policy support the view that the Federal Reserve banks should apply the standards established by the act to all classes of employees except classes specifically exempted by the act and that, whenever any doubt exists as to the applicability of the act to a particular employee or class of employees, the doubt should be resolved in favor of its applicability, at least until the situation is clarified by administrative rulings or otherwise. Practical considerations as well as considerations of policy support this view. The act is drawn in very broad and sweeping terms; many doubts exist as to its correct interpretation as applied to particular situations; violations of the act are punishable by fine or imprisonment; and, under the provisions of section 16(b) of the act, any employer who violates the provisions of sections 6 or 7 is liable to the employee or employees affected in double the amount of their unpaid minimum wages or their unpaid overtime compensation, as the case may be, and such liability may be enforced in suits brought by individual employees.

The Board understands that, while the policy of complying with the standards established by the act may entail some minor changes, the Federal Reserve banks have generally maintained working conditions more favorable to their employees than the minimum standards required by the act and that the adoption of this policy will not involve any major changes, either in hours of employment or in salaries paid.

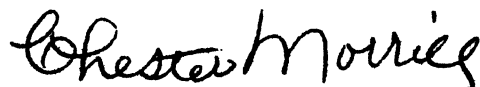
In this connection, attention is invited to the provision of section 18 of the act to the effect that, "No provision of this act shall justify any employer in reducing a wage paid by him which is in excess of the applicable minimum wage of this act or justify any employer in increasing hours of employment maintained by him which are shorter than the maximum hours applicable under this act".

On the other hand, it is believed that every reasonable effort should be made through careful management to avoid increasing the expenses of the Federal Reserve banks any more than is reasonably necessary in order to comply with the standards established by the act. To this end, it is expected that the Federal Reserve banks will carefully canvass the extent to which overtime work may be avoided and the taking on of more employees may be kept to a minimum, by lending employees between departments, by reducing the number of hours worked on one or more days of a week as an offset to overtime worked on other days in the same week, and by making other operating and administrative adjustments.

Inasmuch as it would seem desirable for all of the Federal Reserve banks to pursue uniform policies in conforming to the standards established by the act, the Board has considered questions raised by various Federal Reserve banks and its views as to the manner in which certain of these questions should be answered are set forth in a memorandum inclosed herewith. However, it should be understood that no expression of the Board's views would afford the Reserve banks any legal defense in any criminal proceeding for a violation of the act or in any suit brought by an employee to recover double the amount of any overtime compensation alleged to be due him under the act, if it should be held that the Federal Reserve banks were subject to the act.

It is not believed to be desirable at the present time for the Federal Reserve banks or the Board acting on their behalf to attempt to obtain any rulings or determinations from the Administrator. However, it is anticipated that from time to time the Administrator will issue regulations and will make determinations and rulings at the request of others, which will aid in deciding how best to conform to the standards prescribed by the act; and every effort will be made to obtain copies of such regulations, rulings and determinations, and to forward them to the Federal Reserve banks as promptly as possible.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

COMMENTS RELATIVE TO THE
FAIR LABOR STANDARDS ACT OF 1938

(The following statements are for the information of the Federal Reserve banks and do not represent final legal conclusions. All of such statements are, of course, subject to the possibility that different positions may be taken by the Administrator or by the courts.)

Maximum Hours of Work.

The Act does not forbid requiring employees to work more than the maximum number of hours specified in the statute if they are paid for work in excess of such maximum hours at a rate not less than one and one-half times the regular hourly rate of compensation. For the purposes of the Act the controlling factor is the total number of hours actually worked during any one workweek, regardless of any leave taken during such week.

Must Workweek be Same as Calendar Week?

The regulations of the Wage and Hour Division apparently contemplate that the workweek of an employee may be different from the calendar week and different from the workweek of other employees of the same employer, provided that the workweek is not changed for the purpose of evasion of provisions of the Act or any regulations prescribed pursuant thereto.

Maximum Hours in Workweek during Which Holiday Occurs.

Where an employee does not work on a holiday, there appears

to be nothing in the Act to prevent him being required to work a maximum of forty-four hours during the other days of the workweek in which the holiday occurs without any portion of such time being classed as overtime.

Allowance of Compensating Time in Lieu of Paying Overtime.

Payment for overtime work may be minimized by reducing time worked on one or more days to offset overtime worked on other days of the same workweek.

Luncheon Periods.

Periods allowed for meals during any particular workweek should not be counted in determining the number of hours actually worked during such week.

Payment for Overtime where Hours Worked do not exceed Forty-four Hours per Workweek.

The Act apparently does not require payment of time and one-half for overtime above the established number of hours in the bank's workweek but merely requires payment of time and one-half for overtime when the hours worked during any one workweek exceed forty-four hours and in such case requires the payment of time and one-half only for the overtime hours in excess of forty-four.

Overtime Work Resulting from Examinations, Audits, or Causes Beyond the Bank's Control.

There is no provision in the Act excluding overtime resulting from causes beyond the control of the employer. Therefore, it is believed that the fact that overtime results from audits or examinations

of the bank or from causes beyond the control of the bank does not justify noncompliance with the terms of the Act.

Method of Computing Hourly Wage of Employees Receiving Monthly or Yearly Salary.

The method of computing an employee's hourly wage is provided in the regulations of the Administrator of the Wage and Hour Division regarding records to be kept by employers pursuant to section 11(c) of the Fair Labor Standards Act. Copies of these regulations were forwarded to Counsel for the Federal Reserve banks on October 22, 1938. It is believed that, in making any division of annual or monthly salaries for the purpose of arriving at an hourly rate of pay, no deduction should be made for time allowed for annual leave or sick leave. For instance, in dividing the annual salary by a number of weeks, it should be divided by fifty-two and not by fifty-two minus the number of weeks allowed as annual leave or sick leave. Where the previously established workweek of an employee is less than forty-four hours a week, it is not believed advisable arbitrarily to divide his weekly salary by forty-four in order to determine his hourly wage, especially in view of the provisions of the last sentence of section 18 of the Act.

Building Maintenance Employees.

The question has been raised as to whether the wage and hour provisions of the Act apply to building maintenance employees, such as janitors, elevator operators, restaurant employees, watchmen, and guards. Although there are strong grounds for the view that the Act should not be construed as applying to such employees of Federal Reserve banks, it

is understood that the Wage and Hour Division of the Department of Labor regards this as a very close question and has not reached a decision thereon. Accordingly, until this point is clarified, it is believed that it would be advisable for the Federal Reserve banks to apply the minimum wage and maximum hour provisions of the Act to building maintenance employees as well as to all other classes of employees not specifically exempted from the Act.

Exemptions of Executive, Administrative, and Professional Employees.

Regulations defining executive, administrative, and professional employees were issued by the Administrator on October 19, 1938, and copies were sent to Counsel for each Federal Reserve bank under date of October 20. It will be observed that, under the terms of the regulation, the question whether a particular employee is exempted depends upon the facts in each individual case. Each Federal Reserve bank should determine which of its employees fall within these exemptions in the light of the regulations of the Administrator.

Employees of the Fiscal Agency Departments.

Employees in the fiscal agency departments of the Federal Reserve banks are not employees of the United States and, therefore, are not exempted under the provisions of section 3(d) of the Act.

Applicability of Child Labor Provisions.

In view of the provisions of the Act on this subject, it is believed that no Federal Reserve bank should employ or continue in its employ any person under sixteen years of age.

Time Spent in Traveling.

There is nothing in the Act or in any of the administrative

rulings to furnish any guide as to the proper treatment of time spent by a nonexempted employee in traveling on the business of his employer in determining the number of hours worked during a workweek. Therefore, the Board is not in a position to express any opinion on this subject. It is suggested, however, that a careful record be kept of the total time spent by nonexempted employees while in a travel status and of the portion of such time spent actually working (excluding the time spent solely in traveling) and other pertinent data, in order that appropriate adjustments may be made when the solution of this problem has been determined.

Records.

The Act requires an employer to keep such records as the Administrator shall prescribe by regulation or order. Regulations on this subject were published in the Federal Register for October 22, 1938, copies of which were sent to Counsel for the Federal Reserve banks on that date.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-122 **355**
Reg. T-79

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 27, 1938.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Withdrawal from General Account Followed by Other Transactions on Same Day".

It will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", written in a cursive style.

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, November 1, 1938.

The following ruling will appear in the Federal Reserve
Bulletin.

Withdrawal from General Account Followed by
Other Transactions on Same Day

The second paragraph of section 3(b) of Regulation T
provides, in part, as follows:

"A transaction consisting of a withdrawal of cash or registered or exempted securities from a general account shall be permissible only on condition that * * * the transactions (including such withdrawal) on the day of such withdrawal would not create an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account or increase any such excess."

In order to insure compliance with this provision many brokers make it a practice to permit no withdrawals from the account without being assured that trading in the account has been concluded for the day. The Board, however, recently received inquiries regarding two situations in which a broker, having failed to take this precaution, permitted a withdrawal that was followed by transactions which, in combination with the withdrawal, would create or increase an excess of the adjusted debit balance of the account unless margin was deposited in the account

on the same day.

For simplicity of exposition these cases may be assumed to be alike in that at the beginning of the day the adjusted debit balance of the account exactly equalled the maximum loan value of the securities in the account, and that early in the day \$2500 of registered nonexempted securities were sold. Under present loan values of 60 per cent, this released margin in the complementary percentage of 40 per cent, i.e., \$1000. The creditor permitted the customer to withdraw this \$1000 in cash.

Later in the day other securities were purchased in the account.

In one case \$2000 of registered nonexempted securities were purchased, requiring \$800 of margin, i.e., \$200 less than the \$1000 withdrawn.

In the other case \$4000 of such securities were purchased, requiring \$1600 of margin, i.e., \$600 more than the amount withdrawn.

The question in each case related to the time within which the required margin must be obtained from the customer.

The provisions of section 3(b) quoted above clearly forbid a withdrawal of cash or securities if the withdrawal, in combination with the other transactions on the same day, would create or increase an excess of the adjusted debit balance of the account. Accordingly, in the case of the subsequent transaction requiring \$800 margin it would be necessary for the creditor to obtain the

-3-

full amount of such margin before the end of the day on which the withdrawal took place.

In the other case, in which the subsequent transaction required \$1600 margin or \$600 more than that originally withdrawn, it would be necessary to obtain, on the date of the transactions in question, the \$1000 which had been withdrawn. The remaining \$600 required could be obtained, as provided for ordinary transactions by the first paragraph of section 3(b), "as promptly as possible and in any event before the expiration of three full business days following the date of such transaction."



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-123
Reg. T-80
359

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 27, 1938.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Broker or Dealer Who Transacts a Business in Securities Through the Medium of a Member".

It will be noted that the second and third paragraphs of the ruling are based upon the Board's letter of April 28, 1937 (X-9880; Reg. T-54).

It will also be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement.

Very truly yours,

A handwritten signature in cursive script, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, November 1, 1938.

The following ruling will appear in the Federal Reserve
Bulletin.

Broker or Dealer Who Transacts a Business in Securities
Through the Medium of a Member

Under section 7(c) of the Securities Exchange Act of 1934 "any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member" is subject to the Board's Regulation T, which relates to the extension and maintenance of credit by such persons. In this connection the Board has had occasion to consider certain questions as to what brokers or dealers "transact a business in securities through the medium of a member".

The general question of whether or not a particular broker or dealer "transacts a business in securities through the medium of a member" must turn upon all the relevant facts involved in the business of that broker or dealer. It has not seemed feasible to attempt to specify any conditions or factual situations which would prevent a broker or dealer from coming within the description.

The Board has, however, expressed the view that the mere failure to handle any business in registered securities would not,

in itself, be sufficient to keep a broker or dealer from being one who transacts a business in securities through the medium of a member. This is because the relevant language does not refer to transacting a business in registered securities but to transacting a business in securities.

Similarly, it has expressed the opinion that the fact that a firm does not carry any so-called margin accounts would not, in itself, be sufficient to keep the firm from being a broker or dealer who transacts a business in securities through the medium of a member, because the Act refers to transacting a business in securities rather than to transacting a margin business in securities.

A "broker or dealer who transacts a business in securities through the medium" of any member of a national securities exchange is subject to Regulation T to the same extent as a member. Accordingly, if a broker or dealer is one who transacts a business in securities through the medium of a member, he is subject to the regulation even as to a particular transaction which is not effected through a member.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-124
Reg. H-14

362

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1938.

Dear Sir:

The question has recently been raised as to whether the principles set forth in the uniform agreement regarding revision of examination procedure (as published in the July 1938 Bulletin), particularly with respect to the appraisal of securities and the requirements for charge-offs, are applicable to banks applying for membership as well as to banks which are already members of the System.

The Board feels that in accordance with the spirit and purpose of the agreement depreciation in securities of banks applying for membership should be treated in the same manner as in the case of banks that are within the System. Accordingly the instructions in letters X-7581 and X-7705 dated September 11, 1933, and December 9, 1933, respectively, regarding the treatment of securities depreciation in connection with banks applying for membership in the System are cancelled. The provisions of letter S-113 dated September 3, 1938, apply to examinations made in connection with applications for membership as well as to examinations of State member banks and the technical question of whether a bank's capital is unimpaired will be determined by the deduction of the total of classification IV.

While to be legally eligible for membership a bank must have an unimpaired capital, the acceptability of a bank for membership, of course, does not rest solely upon the determination of its legal eligibility.

Very truly yours,

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-125
Reg. T-81

363

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1938.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Guarantee of Account by Special Partner of Member Firm".

It will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Wednesday, November 9, 1938.

The following ruling will appear in the Federal Reserve Bulletin.

Guarantee of Account by Special Partner of Member Firm

Section 6(c) of Regulation T provides that a guarantee of a general account may not be given effect for the purposes of the regulation if the guarantor is a "creditor".

It was pointed out at page 90 of the February 1938 Federal Reserve Bulletin that the term "creditor" is defined in section 2(b) of the regulation to include, among others, every member of a national securities exchange, and the term "member" is defined in section 3(a)(3) of the Securities Exchange Act of 1934 to include, among others, "any firm transacting a business as broker or dealer of which a member is a partner, and any partner of any such firm." It was stated there, accordingly, that a partner of such a member firm is a creditor within the meaning of the provision regardless of whether or not he holds an exchange membership, and that a guarantee executed by such a partner may not be given effect under section 6(c) of the regulation.

In reply to a recent inquiry, the Board stated that this restriction applies to a guarantee executed by a special partner of such a firm as well as to a guarantee executed by a general partner.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

November 5, 1938.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letter of October 27, 1938 regarding the proper maximum loan value under Regulation U for collateral other than stocks.

The Board agrees with your views on the question and also agrees that it would be advisable to publish a ruling on the point. Accordingly, the ruling set forth below will be published in the Federal Reserve Bulletin.

Maximum Loan Value of Bonds under Regulation U

Section 1 of Regulation U provides in part that for the purposes of that regulation the maximum loan value of stocks shall be as specified in the supplement to the regulation and the maximum loan value of any collateral other than stocks shall be "as determined by the bank in good faith".

This means, in effect, that for such purposes the maximum loan value of collateral other than stocks should be the amount which the bank would customarily lend on such collateral if that were the only collateral for the loan. Consequently, a bank may not determine that such other collateral, as for example a bond, has a maximum loan value equal to its current market value unless the bank would customarily lend such amount on the collateral without any additional collateral.

It is believed that the regulation is clear on this point, but since it has developed that there may have been some confusion regarding the matter, it has seemed desirable to publish the foregoing to remove any misunderstanding that may have existed in this connection.

Very truly yours,
(Signed) L. P. Bethea
L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

November 8, 1938.

Honorable Preston Delano,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. Delano:

This refers to Mr. Gough's letter of May 9, 1938 (CC-7-LD) requesting an expression of the Board's views with respect to certain questions relating to the deposit of trust funds by a national bank in its savings department. The questions are quoted and commented upon below:

"(1) May a national bank with trust powers, acting in a fiduciary capacity, deposit trust funds in its own savings department 'as an investment', and would the answer be different in a State where state banks are permitted to invest trust funds in their own savings departments?"

Section 11(a) of the Board's Regulation F provides that "funds received or held by a national bank as fiduciary shall not be invested in *** obligations of *** the bank", and a footnote appended thereto provides that such requirement "shall not be deemed to prohibit investments which are expressly required by the instrument creating the trust or by court order". Accordingly, the Board is of the opinion that a national bank is not permitted to invest trust funds by depositing them in its own savings department unless such investment is expressly required by the instrument creating the trust or by court order. In this light, it is believed that it is immaterial whether State banks are permitted to invest trust funds by so depositing them.

"(2) If trust funds are deposited in its savings department 'as an investment' are such funds required to be secured by assets of the bank segregated in the trust department?"

Section 11(k) of the Federal Reserve Act and section 9(b) of Regulation F require that trust funds awaiting investment or distribution which are used by a national bank in the conduct of its business be secured by the deposit of securities in the trust department of the bank. However, the Board is of the opinion that trust funds

invested by a national bank by deposit in its own savings department are not required to be secured because they are not funds awaiting investment or distribution. In this connection, it may be suggested that trust funds deposited by a national bank in its own savings department ordinarily should be assumed to be funds awaiting investment or distribution if they cannot properly be invested in obligations of the bank under the provisions of section 11(a) of Regulation F referred to above.

"(3) Where the provisions of the trust instrument require legal investments, may a national bank deposit funds 'awaiting investment or distribution' in its own savings department under the provisions of 11(k) of the Federal Reserve Act and of Regulation F, if savings accounts 'as an investment' cannot be considered as conforming to local statutes?"

Section 11(k) of the Federal Reserve Act and the Board's Regulation F do not prohibit a national bank from depositing in its own savings department trust funds administered by it and awaiting investment or distribution, but it should be borne in mind that section 9(a) of Regulation F provides that trust funds shall not be held uninvested or undistributed by a national bank "any longer than is reasonably necessary". Of course, as indicated in Mr. Gough's letter, any such deposit must conform to the requirements of the Board's Regulation Q relating to "savings deposits". The question whether, under the laws of a particular State in which a national bank may be located or under the provisions of a particular trust instrument, a national bank may properly carry trust funds awaiting distribution or investment in a savings deposit is one depending upon all the facts in the particular case and the proper construction of the State law, upon which it is understood you do not desire a ruling by the Board.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-128
Reg. T-82

368

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 17, 1938.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Paying for Purchase in Special Cash Account by Selling Another Security".

It will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, November 22, 1938.

The following ruling will appear in the Federal Reserve
Bulletin:

Paying for Purchase in Special Cash Account
by Selling Another Security

Section 4(c) of Regulation T provides in part as follows:

"In a special cash account, a creditor may effect for or with any customer bona fide cash transactions in securities in which the creditor may --

(1) purchase any security for, or sell any security to, any customer, provided * * * the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the customer will promptly make full cash payment for such security;

* * * * *

"Except as otherwise provided in this section 4(c), in case a customer does not make full cash payment for a security purchased by him in the account * * * within seven days after the date on which the security was purchased or sold, the creditor shall promptly cancel, cover, or otherwise liquidate, the transaction or the unsettled portion thereof."

The Board recently had occasion to consider two questions regarding transactions in the special cash account.

The first question arose from a case in which a customer proposed to purchase a security in the special cash account and then to

make the necessary prompt payment by selling in the account another security of sufficient value and using the proceeds of sale for the purpose. The question was whether such a proposal for making payment disqualified the purchase for inclusion in the special cash account.

The exact answer to this question would depend upon the circumstances of the particular case. In some circumstances, such a combination of transactions might be evidence of an attempt to evade or circumvent the regulation, and if the purchase was part of such an attempt its inclusion in the special cash account would, of course, be forbidden, because section 4(a) of the regulation provides in part that:

"A special account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this regulation."

It is the view of the Board, however, that, while a proposal to effect such a combination of transactions should be carefully scrutinized, the effecting of the proposed purchase in the special cash account would not necessarily be prohibited if the purchase complied in other respects with the requirements of the regulation and there was in fact no attempt to evade or circumvent the regulation. This would require, among other things, that the proposed purchase be in fact a "bona fide cash transaction" as that term is ordinarily used in the trade and that the proposed sale be one that is to be made and settled promptly.

The second question arose from a permissible instance of the type described above in which the security to be sold was deposited with the creditor and sold promptly, well within seven days after the date of the purchase, and the creditor was to receive the proceeds of sale promptly in the usual course of business but not until more than seven days after the date of the purchase. This presented the question whether in such circumstances it might be considered that the security purchased by the customer had been paid for by him within seven days after the purchase.

Assuming that the purchase was one which, as indicated above, could properly be effected in the special cash account, the question whether it might be considered that payment had been made within seven days should be answered in the affirmative. When a customer has sold a security in a special cash account, section 4(c) permits the broker to make the proceeds of the sale of the security available to the customer upon the receipt of the security in the special cash account even though this be prior to the date on which the broker is to receive the proceeds of the sale. Accordingly, in the instant case the creditor could have paid the customer the proceeds of sale within the seven-day period and the customer could in turn have used such proceeds to make full cash payment to the creditor for the security purchased. In the circumstances, such payment could properly be treated as having been made by the customer without the necessity for the mechanical passage of funds from the creditor to the customer and back again to the creditor.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

November 21, 1938.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____.

Dear Mr. _____:

Receipt is acknowledged of your letter of October 28, 1938, forwarding the request of The Bank of _____, _____, _____, for permission to purchase certain additional stock of the _____ Agricultural Credit Corporation. It is noted that the _____ Agricultural Credit Corporation was organized under the laws of the State of _____ and that all of its capital stock is now owned by The Bank of _____.

The Board, in its ruling published on page 449 of the Federal Reserve Bulletin for 1933, to which reference has been made by your counsel, and in other instances, has ruled that, inasmuch as section 9 of the Federal Reserve Act, as amended by the Banking Act of 1933, subjects State member banks to the same limitations and conditions with respect to the purchase of stock of other corporations as are applicable to national banks under paragraph seventh of section 5136 of the Revised Statutes of the United States, State member banks are not permitted to invest in any stocks except stock of the limited types of corporations in which national banks are allowed to invest. A contrary view would result in a discrimination between State member banks and national banks in this regard and would thus be inconsistent with the intention of Congress in enacting the provision of section 9 relating to the purchase of stock by State member banks. With reference to the suggestion of your counsel that section 23A of the Federal Reserve Act may be considered as authority for the purchase of the stock in question, it may be stated that the Board has taken the position that this section does not authorize a State member bank to purchase stock of an affiliate, and for your information and that of your counsel there is inclosed herewith a copy of the ruling which the Board made some time ago on this subject.

The Board, however, has given careful consideration to the request of The Bank of _____ and to the views of your counsel expressed in connection therewith, but, since there is no authority in the Federal law for a national bank to invest in the stock of an agricultural credit corporation incorporated under State law, it is the view of the Board that The Bank of _____, a State member bank, may not lawfully purchase additional stock in the _____ Agricultural Credit Corporation.

-2-

In communicating the Board's views in this matter to the member bank, it is requested that you advise the bank that the Board recognizes that the purpose of its request is to serve the agricultural credit needs of its community and that legal considerations require the position which is taken above. It is assumed that you will also assure the member bank of the desire of the Federal Reserve bank to assist it as far as possible in making credit available to the community.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure.

July 21, 1934.

Mr. _____,
Federal Reserve Agent,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

It is understood that the _____ Company _____, Pennsylvania, has requested the Board to reconsider its ruling that the exercise by the _____ Company of its preemptive right to acquire its pro rata share of the newly authorized capital stock of its affiliate, the _____ Bank, _____, Pennsylvania, would be in violation of Section 9 of the Federal Reserve Act, as amended by Section 5(c) of the Banking Act of 1933. Before making such ruling the Board gave careful consideration to the effect of Section 23A of the Federal Reserve Act, as enacted by Section 13 of the Banking Act of 1933, but as requested by the _____ Company, the entire subject has now been reviewed with particular attention to that Section. After such reconsideration the Board is of the opinion that its prior ruling was correct.

The Board has heretofore ruled that inasmuch as Section 9 of the Federal Reserve Act, as amended by Section 5(c) of the Banking Act of 1933, subjects State member banks to the same limitations and conditions with respect to the purchase of stock of other corporations as are applicable to national banks under paragraph Seventh of Section 5136 of the Revised Statutes, State member banks are not permitted to invest in stocks except in the stock of the limited types of corporations in which national banks are allowed to invest. Such ruling was

made with respect to the stock of a corporation which was not an affiliate of the member bank in question and before giving to the _____ Company the ruling now under reconsideration it was therefore necessary for the Board to determine whether any provision of law permitted a member bank to invest in the stock of an affiliated corporation although it would not have been allowed to do so had the corporation not been an affiliate. It is urged on behalf of the _____ Company that Section 23A, by fixing limitations beyond which a member bank may not invest in the stock of an affiliate, impliedly authorizes such investment up to the limits prescribed and the Board recognizes that rules of statutory construction would justify this interpretation in the absence of evidence indicating legislative intention to the contrary.

With respect to the provisions of Section 23A which relate to investments in stocks, however, the above mentioned provision of Section 9 of the Federal Reserve Act which subjects State member banks to the same limitations as are applicable to national banks is an important additional factor to be considered. Prior to the Banking Act of 1933 the Comptroller of the Currency had ruled that national banks did not have the corporate power to invest in stocks of any corporations except in a few clearly defined cases and the amendment made to Paragraph Seventh of Section 5136 of the Revised Statutes by the Banking Act of 1933 was a definite recognition by the legislature of the non-existence of such power. It seems extremely unlikely that Congress intended by another provision of the same Act to increase the corporate powers of all

-3-

national banks in so indefinite a manner as by the implied permission which may be inferred from the language of Section 23A. Furthermore, there is no apparent reason why Congress should have prohibited State member banks from investing in the stock of non-affiliated corporations but should have permitted them to invest up to the prescribed limits in the stock of corporations which were already affiliates. The fact that in certain cases an affiliation arises from circumstances such as the existence of common directors suggests no reason why the law should have permitted an investment by the member bank in the stock of its affiliated company and in other cases, such as a holding company affiliate, an investment would appear to be more objectionable than an investment in the stock of a non-affiliated company.

Accordingly the Board is of the opinion that in view of other provisions of law Section 23A is not to be construed in the manner suggested by the _____ Company and the Board is therefore unwilling to reverse or modify its previous ruling. You are requested to notify the _____ Company accordingly.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-130
Sec. 15 F.R.A.-4

377

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 25, 1938.

Dear Sir:

In response to an inquiry from a Federal reserve bank, the Board of Governors recently advised the bank as follows:

"Reference is made to your letter of August 24, 1938, requesting advice as to whether, in view of the Board's letter of September 30, 1936, X-9709, your bank should maintain two accounts representing the deposit of uninvested trust funds by the _____ Trust Company, _____, a member institution which transacts no commercial banking business. It is understood that the two accounts opened on your books represent a segregation of uninvested court and private trust funds, as required by the laws of _____, and it is expected that the accounts will not be of a temporary nature.

"In view of the representations made regarding the accounts of the _____ Trust Company, the situation of a number of member banks which are subject to a condition of membership requiring the pledge of securities to cover trust funds deposited in their own commercial banking departments but are not permitted by State law to make such a pledge, and the possible temporary need of other member banks operating trust departments which was the basis for the Board's letter of September 30, 1936, X-9709, the Board will offer no objection to the receipt of deposits of uninvested trust funds in special accounts by the Federal Reserve banks from:

- (1) any member bank for a temporary period when, in the judgment of the Federal Reserve bank, circumstances render such service to the particular bank desirable,
- (2) any State member bank subject to the condition of membership that trust funds deposited by the bank in its banking department shall be secured by pledge of collateral with the trust

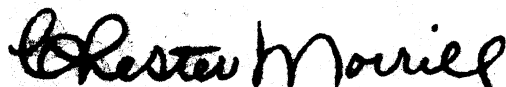
department and located in a State whose laws do not permit the pledge of collateral for the purpose, and

- (3) any member trust company which transacts no savings or commercial banking business.

"As indicated in the Board's letter of September 30, 1936, deposits of funds received by a member bank in a fiduciary capacity and deposited in a Federal Reserve bank in a special account may not be counted as a part of the member bank's reserve balance with the Federal Reserve bank.

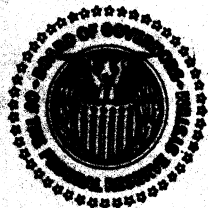
"While the Board feels that the matter of requiring an agreement, as suggested in its letter of September 30, 1936, as well as the question of restrictions upon the source and disposition of trust funds received on deposit under the authority contained in this letter, are for the determination of each Federal Reserve bank in consideration of the laws and court decisions in the States included in its district, it is assumed that, in any case in which uninvested trust funds are received by a Federal Reserve bank, it will take such steps in consultation with its counsel as may be deemed necessary to eliminate or minimize any possibility of litigation or loss to the Federal Reserve bank."

Very truly yours,



Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-131

379

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 7, 1938.

Dear Sir:

In accordance with the recommendation of the Committee on Free Services of the Presidents' Conference as amended and approved by the Presidents' Conference at its meeting in Washington on October 24-25, 1938, the Board approves the acceptance and holding in safekeeping of securities pledged as collateral to deposits of bankrupt estates under the provisions of Chapter VII of the amended Bankruptcy Act, with the understanding that

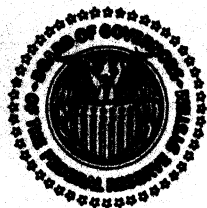
1. When such securities are placed in safekeeping with the Federal Reserve banks by member banks, the Federal Reserve banks will make no charge for their services in connection therewith,
2. When such securities are placed in safekeeping with the Federal Reserve banks by nonmember banks, including nonmember clearing banks, the Federal Reserve banks will charge for their services at the rate of 1/40th of one per cent of the face value of such securities, provided, however, that the minimum charge shall be \$2.50 and the maximum charge \$250.00 for each twelve month period, or portion thereof, during which securities are held in safekeeping, and
3. The Federal Reserve banks will be reimbursed by depositing member and nonmember banks for shipping expenses incident to receiving and delivering securities pledged as collateral to deposits of bankrupt estates under the provisions of Chapter VII of the amended Bankruptcy Act.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

380
S-152

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 17, 1938.

Dear Sir:

The Board approves, effective January 1, 1939, the changes set forth below in the uniform paragraphs of the noncash collection circulars of the Federal Reserve banks recommended by the Standing Committee on Collections in its reports dated December 17, 1937 and September 20, 1938, as approved by the Conference of Presidents at its meetings on February 28-March 1, 1938, and October 24-25, 1938, and in the Committee's report dated May 26, 1938, as revised and approved by the Conference of Presidents at its meeting on October 24-25, 1938.

Paragraph (4) under caption "Definition of Noncash Items", as revised.
(See report of Committee dated September 20, 1938 and minutes of Presidents' Conference dated October 24-25, 1938.)

- (4) Maturing bonds and coupons (other than obligations of the United States and of Governmental agencies, which are redeemed by Federal reserve banks as fiscal agents separately from this collection service).

Paragraph (3) under caption "Terms of Collection", as revised. (See report of Committee dated December 17, 1937 and minutes of Presidents' Conference dated February 28-March 1, 1938.)

- (3) A Federal reserve bank will forward such items payable in another district for collection to the Federal reserve bank (or branch) of such other district; provided, however, that a Federal reserve bank, in its discretion, may route direct to the place of payment in another Federal reserve district any item the size or character of which, or the circumstances in connection with which, would seem, in the judgment of the Federal reserve bank, to justify such direct routing.

Paragraphs under caption "Collection Charges", as revised. (See report of Committee dated May 26, 1938 and minutes of Presidents' Conference dated October 24-25, 1938.)

The Federal reserve banks make no charge for their services in collecting non-cash items (except as provided below)

and, therefore, any item payable in a city where there is a Federal reserve bank or branch, the collection of which is not restricted, will be collected at par. If any such item is payable through or collectible by a specified bank or other collecting agent, any charge made by such agent will be deducted and the net proceeds of the item credited.

With respect to the collection of non-cash items payable outside of Federal reserve bank and branch cities, it is recognized that any bank selected by a Federal reserve bank as agent to collect any such item (except checks and bank drafts) renders a service, in presenting, collecting and remitting, for which a reasonable charge may be made if it cares to do so, and when such a charge is made, it will be deducted and credit given for the net proceeds.

Items sent to the Federal reserve banks for collection are subject to the following charges:

- (1) Charges made by collecting banks or agents, referred to above.
- (2) Charges made in the discretion of the Federal reserve banks for handling or collecting securities.
- (3) A service charge of 15¢ per item on all collection items returned unpaid and unprotested. This charge will not apply to items that are protested.
- (4) Expenses incurred for postage and insurance or express in forwarding items by registered mail or express.
- (5) All telephone and telegraph costs. (See paragraph below, "TELEGRAPHIC ADVICE".)

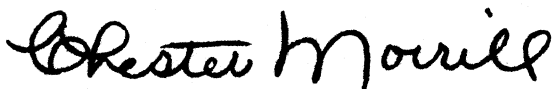
Paragraphs under caption "Direct Routing to Other Federal Reserve Districts", as revised. (See report of Committee dated December 17, 1937 and minutes of Presidents' Conference dated February 28-March 1, 1938.)

Member banks may be permitted to route collection items payable in other Federal reserve districts direct to the Federal reserve banks and branches of the districts in which the items are payable for the account of the Federal Reserve Bank

of _____, and are encouraged to apply for permission to exercise this privilege since it is of distinct advantage to them.

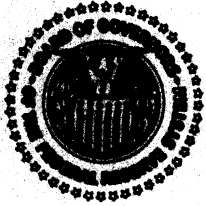
The Federal Reserve Bank of _____ reserves the right to require member banks to route collection items payable in other districts direct to the other Federal reserve banks and branches, when, in our judgment, in any particular case the number, amount or nature of collections handled would appear to justify such procedure.

Very truly yours,



Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

8-155
383

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1938.

Dear Sir:

The Board concurs in the action of the Conference of Presidents held October 24-25, 1938 in approving the following recommendations, or parts of recommendations, of the Standing Committee on Collections, contained in its report dated September 20, 1938:

"(1) Availability of Cash Items - Reduction in Number of Sorts Required of Member Banks

ITEMS PAYABLE IN OWN FEDERAL RESERVE BANK OR BRANCH CITY

That each Federal reserve bank and branch give immediate credit for items payable in own city if received in time for clearing, provided, however, that any reserve bank may give immediate credit for items payable in own city when received through the mails too late for clearing from its own country member banks."

"(3) Description of Cash Items Required of Member Banks

That each Federal reserve bank and branch accept cash items without description as to drawee banks on cash letters from its member banks and direct routing member banks of other districts, provided that each member bank desiring to avail itself of this privilege be required to make a photographic record of the face of each undescribed item sent to its Federal reserve bank or branch, or direct to another Federal reserve bank or branch, and to transmit the film containing photographs of all such items in each cash letter to the Federal reserve bank or branch to which the letter was sent with the understanding that such reserve bank or branch will return such film to the member bank after a lapse of not more than two weeks, if the member bank desires to have the film returned. The Committee sees no objection to a Federal reserve bank's permitting its own member banks to retain the films containing photographs of the checks sent to it, provided

each such member bank agrees to furnish the reserve bank upon its request with a description of all such items and to indemnify the reserve bank in case of any loss resulting from its failure to do so."

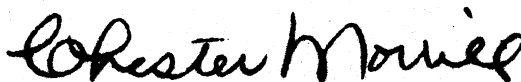
"(4) Closing Hours of Federal Reserve Banks for the Acceptance of Cash Items

That each Federal reserve bank and branch make a careful study of incoming and outgoing mail and express schedules in relation to the additional volume of items that might be received and cleared or dispatched if its closing hours were extended, with a view to adopting later closing hours for the acceptance of cash items if by doing so an appreciable volume of items could be received and collected a day earlier than at present and its expenses would not be increased to an extent incommensurate with the additional service rendered to member banks.

That the established closing hours of each Federal reserve bank and branch for the acceptance of cash items be applicable to items received from other Federal reserve banks and branches and their direct routing member banks as well as to items received from its own member banks."

With reference to the remainder of recommendation numbered (1), which was disapproved by the Conference, and recommendation numbered (2), it is noted that the Conference approved in principle the modified plan suggested by the Committee as an alternative to its recommendations regarding availability of cash items payable outside of own Federal Reserve bank or branch city, including direct sendings, but requested the Committee to give further study to the matter.

Very truly yours,



Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

8-154
385

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1958.

Dear Sir:

In the Board's letter S-116, dated September 9, 1958, attention was called to the fact that Form 212 did not conform in a number of respects to the revised form of examination report and that a revision would be made following the Examiners' Conference then scheduled at which it was proposed to discuss the matter.

Inclosed are two copies of the revised form which the Board has approved, and a supply of the forms is being mailed to each of the Reserve banks under separate cover. Additional supplies may be obtained upon request.

Form 212 is to be used only in connection with examinations made by examiners for the Federal reserve banks and the forwarding, as a general practice, of analyses of reports of independent examinations made by State authorities may be discontinued. If in any case the report of such an independent examination discloses a situation which should be brought to the attention of the Board or contains information which should be forwarded, the information should be presented in the form best adapted to the particular situation.

It will be noted that the revised form makes provision for showing the classification of assets by the State examiner, and also for summarizing the corrective measures instituted by the State authorities if the bank involved is in an unsatisfactory condition. In this connection, it is requested that, if the information from the State authorities will not be available for some time, Form 212 be submitted promptly and the missing information supplied later.

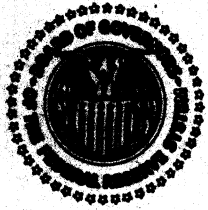
Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", written over a large, stylized flourish.

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-135
386

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 20, 1938.

Dear Sir:

It is noted from the minutes of the meeting of the Conference of Presidents on October 24-25, 1938, that the majority of those present agreed that the Conference should adhere to the position taken by it at its meeting on September 20, 1938, on proposed steps to prevent the abuse by member banks of the currency sorting facilities of the Federal Reserve banks. The action of the Presidents' Conference, at its meeting on September 20, as recorded in the minutes of the meeting was as follows:

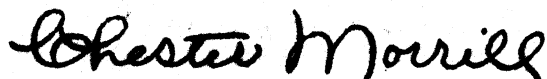
"It was the sense of the Conference that through the efforts of the individual Federal reserve banks any undue abuse of their currency sorting facilities has been already minimized and that each bank should continue to solicit the cooperation of its member banks in eliminating or modifying such practices as result in unreasonable demands upon, or unwarranted expense to, the Federal reserve banks. The majority of those present expressed the opinion, based upon the experience of their banks in negotiating with member banks respecting this problem, that the adoption of any arbitrary rule, such as that contemplated in the motion offered to the meeting, would be inadvisable, as tending to antagonize member banks, and would be unnecessary in view of the progress already made and the further progress which might reasonably be expected to be made through the efforts of the various Federal reserve banks. It was also the opinion of some of those present that there might be valid objections on legal grounds to a rule which prohibited member banks from depositing currency, in their discretion, with Federal reserve banks."

The Board has carefully reviewed this subject and the progress that has been made so far as set forth by the Committee on Free Services in its report dated June 8, 1938. It appears from the date

shown in the Committee's report and in the letters received from the Federal Reserve banks in response to the Board's letter R-319 of October 7, 1938, that some Federal Reserve banks have been much more successful than others in reducing to a minimum the existing abuse by individual member banks of the currency facilities of the Federal Reserve banks, and particularly the practice resorted to by some member banks of depositing currency in the evening and drawing out currency needed the next morning, thus using the Federal Reserve bank as a sorting agency for their currency.

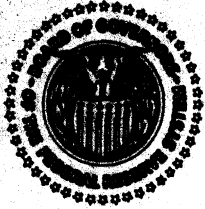
The Board feels that the Federal Reserve banks should continue their efforts toward an elimination of abuses of their currency facilities by individual member banks. The results of the currency studies made by the Committee on Free Services appear to have been very helpful, and the Board would appreciate it if the Committee would again review this subject not later than the spring of 1940.

Very truly yours,



Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-136

388

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 22, 1938.

Dear Sir:

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

Number of
copies

Form

Form FR 105, Report of condition of State bank member.

Form FR 105a, Instructions for preparation of reports of condition by State bank members.

Form FR 105b (Schedule "O"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.

Form FR 105e, Publisher's copy of report of condition of State bank member.

Form FR 220, Report of affiliate or holding company affiliate.

Form FR 220a, Publisher's copy of report of affiliate or holding company affiliate.

Form FR 220b, Instructions for preparation of reports of affiliates and holding company affiliates.

Form FR 105 has been completely revised. Similar forms have been adopted by the Comptroller of the Currency and the Federal Deposit Insurance Corporation, and the Executive Committee of the Association of State Bank Supervisors has recommended to State banking departments that, in so far as practicable, they use the same forms as adopted by the three Federal bank supervisory agencies.

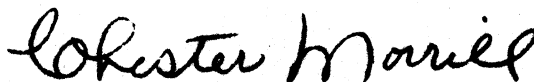
The face side of Form FR 105e has been revised to correspond with page 1 of revised Form FR 105. In addition, a certificate of publication to be signed by an officer of the member bank has been provided on the reverse side of the revised form, in lieu of the publisher's certificate required heretofore.

Detailed instructions (Form FR 105a) have been provided for the preparation of condition reports by State bank members. Similar instructions are being issued by the Comptroller of the Currency and the Federal Deposit Insurance Corporation. It is suggested that State bank members' attention be called particularly to the instructions governing publication, which are intended to facilitate the joint publication of reports of condition rendered to the State banking departments and the Federal Reserve banks, respectively; to the provision that all valuation allowances and reserves for bond premiums be deducted from the appropriate asset and schedule items; and to the omission of the affidavit heretofore required.

In Form FR 105b (Schedule "O") the instructions following the form number have been changed to provide that Schedule "O" need not be submitted if no affiliates are reported in Schedule FF of the condition report. Form FR 220a has been revised by providing a certificate of publication to be signed by an officer of the affiliated State bank member, in lieu of the publisher's certificate required heretofore. No change has been made in Forms FR 220 and 220b.

There is inclosed a memorandum of suggestions in connection with the handling and examination by Federal Reserve banks of condition reports rendered hereafter by State bank members.

Very truly yours,



Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

SUGGESTIONS IN CONNECTION WITH HANDLING AND EXAMINATION OF STATE
BANK MEMBER CONDITION REPORTS BY FEDERAL RESERVE BANKS

December 22, 1938.

Unless otherwise advised the blank forms should be distributed to the State bank members promptly upon receipt thereof from the Board of Governors, with advice to the effect that they should be held pending receipt of a call for reports thereon.

The following number of copies of the forms should be furnished to each State bank member:

Form FR 105 - 4 copies (1 for use as a work sheet, 2 to be completed and returned to the Federal Reserve bank, and 1 to be completed and retained by the member bank)

Form FR 105e - 3 copies (1 for the printer, 1 to be returned to the Federal Reserve bank with certificate of publication, and 1 to be retained by the member bank)

Forms FR 105b, 220 and 220a - none if the bank reported no affiliates on the last preceding call date; otherwise the same number of copies as on the preceding call date.

Form FR 220b - none if the bank reported no affiliates on the last preceding call; otherwise one copy.

Banks to which no copies of Forms FR 105b, 220, 220a and 220b are supplied should be advised that, if one or more affiliates are reported in Schedule FF of the current condition report on Form FR 105, the Federal Reserve bank should be requested promptly for a supply of Forms FR 105b, 220, 220a and 220b.

The letter transmitting blank forms to State bank members should make reference to any important changes in any of the forms since the preceding call*. If no changes were made a statement to that effect should be included in the Federal Reserve bank's letter. The letter should also remind the banks to be guided by the instructions (Form FR 105a) furnished governing the preparation of condition reports and should call attention to any changes in such instructions.

* In the present instance attention should be called to the fact that Form 105 has been completely revised.

A copy of the Federal Reserve bank's letter to State bank members transmitting the blank forms should be furnished to the Board of Governors as soon as practicable, and a copy of the letter and accompanying forms should be sent to the banking department of each State which lies in the Federal Reserve district.

Upon receipt of notice from the Board of Governors fixing the call date, the Federal Reserve bank should immediately call for the required reports. A copy of the Federal Reserve bank's call letter, together with a list of the banks to which it was sent, should be forwarded to the Board promptly. A copy of the letter should also be sent to the banking department of each State which lies in the Federal Reserve district. As soon as practicable after the issuance of the call, the Board should be informed, with respect to each State whose capital city lies in the Federal Reserve district, whether or not the State authorities issued a call for condition reports as of the same date and, if not, the date of the State call nearest thereto.

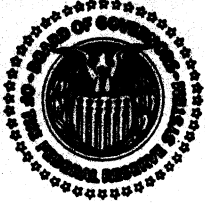
Upon receipt at the Federal Reserve banks the condition reports on Form FR 105 should be examined and any necessary corrections obtained, if practicable, before they are forwarded to the Board of Governors. Corrections should be clearly shown on the copies of reports forwarded to the Board, with an indication of the authority for the correction, including the initials of the person at the Federal Reserve bank who makes them. When necessary to clarify the corrections, a copy of the pertinent correspondence should be furnished the Board. If the obtaining of corrections is likely to delay the transmittal of any reports to the Board beyond three weeks from the date on which the call is announced, such reports, together with copies of pertinent correspondence or memoranda of outstanding correspondence, should be forwarded to the Board, to be followed later by appropriate advice of corrections.

In examining the reports the following points among others should be observed: That the heading of the report and required signatures and attestation are complete; that all totals and subtotals are correct; that the amounts of all items in schedules which are related to items of assets and liabilities agree therewith; that the items listed in the schedules of "Other assets", "Other liabilities" and "Contingent liabilities" appear to belong there rather than in one of the specific items of assets and liabilities; and that the amounts of the various items in the schedules, particularly securities as shown in Schedule B, do not appear to be obviously inconsistent with the amounts of the corresponding items in the immediately preceding report.

The published statement (Form FR 105e) should be checked, before being transmitted to the Board of Governors, to see that it

agrees with the official report on Form FR 105, and that the member bank's certificate of publication on the reverse side has been completed. If any differences are noted, other than of a minor character, they should be called to the attention of the member bank for its guidance in publishing future statements. Unless otherwise advised by the Board of Governors, however, republication should not be required. A copy of the letter to the member bank should accompany the published statement sent to the Board of Governors, to assist in determining the nature of the differences and whether or not they are of sufficient importance to warrant republication of the statement.

The original copies of the reports on Forms FR 105, 105b and 220 should be retained in the files of the Federal Reserve bank, and the duplicate copies should be forwarded to the Board of Governors. The copies of the published statements of State bank members and their affiliates, attached to Form FR 105e and 220a, should be sent to the Board of Governors.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-137

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 28, 1938.

Dear Sir:

Recently, the Board had occasion to review again the subject of Federal Reserve bank participation in, and support of, the Graduate School of Banking at Rutgers University.

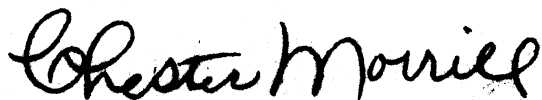
The Board still feels that the officers and employees of the Federal Reserve banks should be encouraged to participate in the educational activities of the Graduate School of Banking and to this end that the Federal Reserve banks should follow a uniform system policy in so far as may be practicable.

Under the procedure set forth in the statement attached to the Board's letter of October 30, 1936, X-9729, the System's contributions toward expenses of officers and employees in attending the Graduate School are limited to transportation expenses and leave with pay for the time necessary to take the course. Upon further consideration of this subject in the light of the recommendations made by a number of the Federal Reserve banks the Board has modified the first paragraph on page 3 of the statement attached to the Board's letter of October 30, 1936, X-9729, to read as follows:

Each Federal reserve bank may assume the transportation expenses to and from the University of officers and employees selected to attend the Graduate School of Banking at Rutgers, pay the Registration and Resident and Extension tuition fees, and may grant them leave of absence with pay of such duration as may be necessary to enable them to attend the two weeks' session of the school, in addition to their regular annual vacation. As it is felt that the student should have a personal financial stake in the attainment of the objective, and accordingly that the Federal Reserve banks should not bear the entire expense, it appears

to the Board most reasonable that the student should be expected to pay his living expenses. Therefore, it is the view of the Board that no reimbursements should be made for dormitory and dining hall charges and incidental expense.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

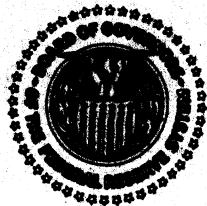
Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 28, 1938.



Dear Sir:

At its meeting on December 21, 1938, the Board of Governors discussed the informal advices that had been received from Federal Reserve banks of proposed changes in official salaries for the year 1939. The Board has felt for some time that it labors under a considerable handicap in endeavoring, during a short period each year, to pass on proposals for changes in salaries of officers of the twelve Federal Reserve banks which, with few exceptions, represent increases and which, in accordance with the practice prevailing heretofore, are submitted annually to become effective on the first of January.

The Board believes that it has met the problem with respect to its own staff by terminating the practice of considering a list of salary changes annually as a part of the budget and by substituting the practice of dealing only with meritorious cases on an individual basis when it appears that an adjustment is due because of a substantial change in duties or responsibilities or other exceptional circumstances pertaining to the particular person or his job. It is convinced that such a change in practice has a salutary effect on the submission of proposals to increase salaries because of the realization that they will undergo an individual review when there is sufficient time to consider them instead of a necessarily more hasty consideration when there is great pressure at the end of the year.

With these points in mind, the Board has decided to adopt a policy with respect to the consideration of future changes in salaries of officers of the Federal Reserve banks similar to that which is in effect with respect to its own staff and to defer at this time consideration of the pending changes until it has had an opportunity during 1939 for a full discussion of the question of salaries with the Presidents of the Federal Reserve banks.

Accordingly, as early in 1939 as circumstances will permit, the Board will invite the President of each Federal Reserve bank to come to Washington at a convenient time for the purpose of reviewing thoroughly the salary situation at his bank.

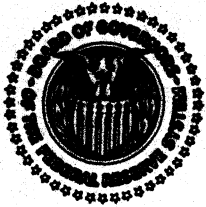
With this procedure in mind, the Board will approve the salaries of the officers of your bank at the rates in effect on December 31, 1938, if fixed by the board of directors at those rates.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS



**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON**

S-139

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 29, 1938.

Dear Sir:

It seems desirable that the commissions or identification certificates issued by the Federal Reserve banks to their examiners and assistant examiners be uniform throughout the System. Therefore, it is requested that the following form be used:

NAME OF FEDERAL RESERVE BANK

_____, 19__.

This is to certify that _____, whose signature appears below, has been appointed, with the approval of the Board of Governors of the Federal Reserve System, an _____ for the Federal Reserve Bank of _____.

This certificate expires December 31, 19__.

Examiner's Signature

President

The above form provides blank space for typing in "Examiner" or "Assistant Examiner", as the case may be, but, of course, if any bank prefers one set of cards may be printed for examiners and another for assistant examiners. It will also be satisfactory to have the holder's signature appear on the side of the certificate instead of at the bottom, if such arrangement is preferred. In such case, of course, appropriate change should be made in the reference to the place of the holder's signature.

The certificates should be issued to expire at the end of each calendar year, with new certificates issued for the succeeding year.

Very truly yours,

L. P. Bethea,
Assistant Secretary.