

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



April 26, 1939.

Dear Sir:

There is enclosed for your information a summary of the bank relations reports submitted by the Federal Reserve banks for the month of March, 1939, in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

A handwritten signature in dark 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.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-452-a

April 24, 1939

TO The Board of Governors                                 SUBJECT: Summary of Bank  
Relations Reports

FROM Mr. Hammond, Division  
of Bank Operations

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

Cleveland observes that in those sections where banks complain most of lean earnings, the highest rates of interest are being paid.

Among the forms of competition complained of by banks are the rates offered by Western Union and Postal Telegraph for monetary transfers, and lending by individuals.

It is reported that in the Mississippi Delta, cotton growers are enabled through improved methods of cultivation - including use of more fertilizer, purchased in some cases with adjustment checks - to produce as much cotton on reduced acreages as they formerly did on their entire plantations.

Many bankers in the Minneapolis District report that dairy-men in their sections are becoming disturbed over southern competition.

Minneapolis reports that some banks have discouraged additional deposits, even suggesting to depositors the advisability of utilizing the Postal Savings System.

Country banks in the Kansas City District report that they are receiving many inquiries from banks in various parts of the country that wish to deposit funds with them on interest.

It appears that country banks in the Kansas City District are being advised by their city correspondents to restrict their Government portfolios to short-term maturities.

Dallas reports that every member bank visited took occasion to comment adversely on proposals that deposit insurance coverage be increased from \$5,000 to \$10,000.

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

### BOSTON

Boston reported no visits were made to banks in March.

### NEW YORK

During the month of March, our officers and representatives visited 220 banks of which 152 are member and 68 nonmember institutions. This total comprises banks located in different sections of the district - eight counties in New York State and two counties in New Jersey.

#### Essex County, New Jersey

The attitude of both member and nonmember bankers in this county is friendly to the Federal Reserve Bank of New York and the System. Several member bankers commented favorably on our new arrangement whereby we return to them after a period of two weeks the films on which they photograph checks sent to us, thus eliminating the expense of duplicate films. Some of the smaller banks which photograph their items might also avail themselves of this arrangement except for the fact that they have an insufficient number of items to use up a film, and thus would incur considerable waste if they were to attempt to cut the film daily.

#### Hudson County, New Jersey

The New Jersey Title Guarantee and Trust Company of Jersey City was taken over by the State banking department at the close of business February 11, 1939. This company with five branches, four in Jersey City and one in West New York, was one of the largest and oldest banking institutions in the State. According to a newspaper announcement, the deposits at the time of closing amounted to approximately \$23,000,000 of which about \$18,000,000 (39,000 depositors) were protected by the \$5,000 maximum individual insurance coverage.

Subsequent to the closing of the New Jersey Title Guarantee and Trust Company, officials of the Federal Deposit Insurance Corporation and the Department of Banking and Insurance of the State of New Jersey stated through the press that consolidations of several institutions would be effected in order to strengthen the position of banks in this section. Up to the time of writing this report, public announcements have been made of two proposed consolidations, one involving the Trust Company of New Jersey (with nine branches) and

the West Bergen Trust Company (with one branch), both in Jersey City, having deposits as of December 31, 1938 of \$50,800,000 and \$3,100,000 respectively; and the other involving the Hudson Trust Company with main office in Union City and two branches in Hoboken, and the Columbia Trust Company of Hoboken having deposits of \$25,050,000 and \$1,550,000 respectively. The newspaper articles also state that two Government agencies will furnish substantial amounts of funds to the consolidated institutions - the Reconstruction Finance Corporation will purchase new preferred stock and the Federal Deposit Insurance Corporation will advance funds for the unsatisfactory assets which it will acquire from the four individual banks.

Officers of several banks say that since the closing of the New Jersey Title Guarantee and Trust Company the activity in their respective institutions has increased considerably, due to depositors of the closed institution establishing new banking connections as well as many other depositors spreading their funds so as not to have more than the insurable limit of \$5,000 in any one bank. Some bankers indicate that they are in favor of large depositors spreading their money in order to have full coverage, particularly if the funds stay among the banks in the county and are not transferred to New York.

The North Bergen Trust Company (deposits \$860,000 as of December 31, 1938) whose deposit insurance status was terminated by the Federal Deposit Insurance Corporation effective May 1, 1937 has continued to operate without insurance of any new funds deposited since that date, although under the law balances held in the bank at the time of its expulsion continue to be insured (up to \$5,000) for a period of two years. The president of that institution states that for a few days subsequent to the closing of the New Jersey Title Guarantee and Trust Company quite a number of people inquired if his bank carried deposit insurance, and says there appeared to be some general uneasiness among the bank's customers due to the common knowledge in this section that the bank is without deposit insurance. Bankers in the North Hudson County area are of the opinion that the North Bergen Trust Company may suffer heavy withdrawals before May 1 (1939) when the two year limit of insurance on old deposits expires. The chairman of the board of that trust company who was also interviewed, does not seem much concerned about the situation and believes that his institution will be able to hold most of its old deposits, although he admits it probably will be difficult to obtain any great amount of new business without deposit insurance.

#### Summary of Preferred Capital Issues

In the ten counties visited there are 191 commercial banks of which 125 have issued preferred stock, capital notes, or debentures aggregating \$35,003,394 par value. Up to the present time

twelve have paid off their entire issues amounting to \$2,175,000, sixty-seven have made partial retirements totaling \$6,591,983, and 46 have not retired any - leaving one hundred thirteen banks with a total still outstanding of \$26,236,411 par value, retirable at \$40,216,467, reflecting redemption premiums of \$13,980,056.

#### PHILADELPHIA

During March representatives of this bank made visits to 44 member and 38 nonmember banks in the southern and eastern part of New Jersey, and in the central and southern part of Delaware. In addition special visits were made to three member banks and one nonmember bank.

The executive vice president of the only national bank in Atlantic City, New Jersey, stated that the greatest competitor of the banks of that city is the local post office which ranks first in New Jersey and fourteenth in the nation in Postal Savings deposits. Such deposits at present total \$3,500,000 and U. S. Savings Bonds sold amount to \$4,000,000.

The president of a nonmember bank with deposits of nearly \$3,500,000 stated that in his opinion the failure of business to improve was because of a lack of confidence in the leaders in Washington, D. C.

The cashier of a nonmember bank with deposits of \$1,800,000 commented very favorably upon the report of the Board of Governors covering operations for 1938. He said that he had a much higher regard for the System since having read that report.

Officers of nonmember banks which are believed to be in position to qualify for membership still express little interest in the subject and apparently will continue with this attitude as long as they feel that the legal requirements for membership by 1942 will be rescinded.

Business conditions in the aggregate have not changed materially since the turn of the year in the New Jersey and Delaware counties covered in this report. Manufacturing activity and retail trade sales increased substantially from January to February in New Jersey but contemplated construction work and registrations of new passenger automobiles declined sharply. In the Delaware counties, owing largely to the region's dependence upon the canning industry, both manufacturing and trade were reduced seasonally in February. Present indications are that retail trade expanded about seasonally in March, while other types of activity showed little change.

The business situation in February as compared with the levels of last summer and with a year ago differed sharply in the areas visited from conditions prevailing generally in the Third Federal Reserve District, where most of the principal lines of activity are well above the earlier levels. In New Jersey and Delaware, automobile registrations alone showed gains over a year before. Improvement over last July was shown only in the operation of New Jersey factories; declines in other indicators have been due chiefly to the fact that some of the most important industries - farming and the resort business - are seasonally less active at this time.

Farm cash income throughout the district in January was sharply reduced from last summer and somewhat below a year ago.

#### CLEVELAND

Generally speaking the attitude of bankers is tinged with pessimism for the immediate future. Industry in the smaller communities has not experienced the anticipated increase in activity. It is doubtless this state of mind which is influencing many bankers to dispose of corporate bonds, even at substantial losses, and to replace them - where replacements are made - with long-term Governments. In certain sections of Pennsylvania it is reported that business "has never been worse".

The complaint continues to be rather general that it is difficult to maintain loan totals; that as new loans are made, others equal in amount are paid off. On the other hand there are numerous scattered instances of substantial increases in loans, and it has occurred to us, on the basis of what information we have, that changes in loan totals may reflect the activity of bank officers in making a more or less active solicitation of such business. As has been previously reported, in a few banks sizable increases in loan portfolios have accompanied reductions in rates.

The attitude of nonmember banks visited during the month has been uniformly friendly. Most nonmember banks are reconciled to compulsory membership in 1942, but indicate that they fail to see any particular advantage in joining the System unless they are compelled to do so to continue deposit insurance. In rare instances the thought has been expressed that the law will be amended so as not to require Reserve System membership as a condition to the maintenance of deposit insurance.

The trend toward lower rates of interest on savings and time deposits continues, and appears to be gaining momentum. It is perhaps significant that the sections which complain most of lean earnings are those in which the highest rates of interest are being paid.

RICHMONDBaltimore, Maryland

Some officers of Baltimore banks hold the last annual report of the Board of Governors to be the most interesting that the Board has ever published. There have also been favorable comments on the statement of Operating Ratios of Member Banks in this district, prepared by this bank, and some banks have used it as a basis of comparison with their own achievements.

There is uniform opinion among Baltimore bankers that no additional agency is needed to supply credit for "small business". Credit is made available by Baltimore banks in all cases where it is deemed at all justifiable, and it is doubted that "legitimate" demands for credit are denied in any instance.

Competition for loans is keen, particularly because of the activities of representatives of large New York banks who solicit business in the Baltimore territory. Loan rates of local banks range from  $1\frac{1}{2}$  per cent to 6 per cent. One banker, referring to outside competition, remarked that "----this territory is now being combed by representatives of New York banks, and it is said that, where a good borrower can be located, he can practically write his own ticket."

As to investments, Federal issues are preferred, although there is a feeling that they are "too high". Even so, it is not expected that their prices will be lower in the near future. Interest on time deposits does not exceed 2 per cent on the first \$5,000 and 1 per cent thereafter in any case.

Northeastern North Carolina

Member banks in the counties of Edgecombe, Wilson, Pitt, Beaufort, Halifax, Pasquotank, and Chowan are confronted with serious competition resulting from the fact that they are often surrounded by nonmember non-par banks which thrive largely because of exchange charges. Even when eligible the latter refuse to consider membership since it involves the loss of the relatively large revenue from this source. They are not opposed to the Federal Reserve System. Indeed, they would like to have the status quo maintained, thereby assuring continuance of their competitive advantage.

In Edgecombe County a few "time merchants" still survive. Between \$500,000 and \$600,000 is advanced annually to cotton, tobacco, and peanut growers in the form of credit, by means of which the latter acquire chiefly fertilizer and general farm merchandise. The "time

merchants" obtain their own funds from local banks against strong financial statements and the lending rates vary from 3 to 5 per cent. Definite information as to the rates they charge is difficult to obtain, but it is held that they charge "all the traffic will bear". Local banks are not disposed to alienate the business obtained from the "time merchants" even though their own volume of loans and earnings might be increased by lending directly to the customers of the latter.

In one instance a State bank owns an Agricultural Credit Corporation to which applicants for crop-production loans are referred when the risk of a bank loan is considered too great. The rates charged by this association vary, but a flat discount of 7 per cent, plus a service charge averaging about 2 per cent, is reported to be usual. Thus, it appears that North Carolina farmers sometimes pay a rate ranging from 8 to 10 per cent, a thing that is possible in the case of certain crop loans under North Carolina law.

#### Western South Carolina

Banks report competition with New York banks for local cotton mill paper, with the result that the rate now runs from  $1\frac{1}{2}$  to 2 per cent. Most banks report a poor volume of loans and have the impression that farmers have, in some manner, gotten more or less onto a cash basis. Doubtless the subsidy payments have been a factor. Some funds are obtained from Federal lending agencies, if necessary, in order to purchase fertilizer for cash. In any event agricultural operations appear to be increasingly financed without resort to the small banks. Perhaps mention should be made of the stated intention of one non-par bank with deposits in excess of \$1,000,000 to somehow keep them below that figure rather than become a member bank in order to retain deposit insurance.

#### ATLANTA

##### Birmingham, Alabama

Business conditions in Birmingham are characterized by the local bankers as "fair"; the statement being made that while business was holding up fairly well there still appeared to exist a feeling of uncertainty. The rate of operations of the steel mills in the Birmingham area is almost double that of the average for the country as a whole. The cement industry is showing increased activity and retail sales are being maintained in good volume.



Southeastern Louisiana.

Auction sales of livestock are held each week in most of the larger towns, and the sale of surplus livestock throughout the year enables the farmers to supplement their earnings to a material extent. There is also considerable interest shown in tung oil in this section.

The banks visited do not have a systematic schedule of service charges but the officers of the banks are giving consideration to the inauguration of such a schedule. The customary interest rate on loans is 8%. Interest at the rate of 2% is paid on savings deposits.

No complaints were made against Governmental lending agencies; on the contrary, bankers stated that in their opinion these agencies had rendered a needed service without detriment to the banks.

The nonmember banks visited derive substantial earnings from exchange charges on incoming cash letters and for this reason the officers are not interested in membership at this time.

The New Orleans Branch was represented at meetings of each of four regional clearing house associations of Louisiana banks held in the month of March. The principal topic of discussion at each of these meetings was the proposed inauguration of a uniform schedule of metered service charges.

Southwestern Louisiana.

All of the banks visited are located in communities which serve rich farming areas, rice and sugar cane being the principal crops. The agricultural outlook is not particularly bright at the present time. Considerable concern was expressed over the possibility of a repetition of the unfavorable rice market of last season. Some concern was noted also over the program outlined for the sugar industry.

The banks visited report deposits which compare favorably with those of last year. There is apparently a fair demand for loans.

One of the bankers interviewed stated that due to competition offered by the Western Union and Postal Telegraph Companies his bank was unable to handle profitably transfers of funds. It was stated that these companies are facilitating such transfers at rates far below those which the bank could afford to charge.

Each of the member banks visited has found the services rendered by the Federal Reserve System satisfactory. All of the bankers are pleased with the volume of business handled during the past year and are anticipating a seasonal upturn in business activity in the near future.

### CHICAGO

Reports from banks in this district show that they are more active in their efforts to meet competition of Federal loaning agencies. This is especially true with respect to the Production Credit Corporation. As a result of this aggressive attitude, country banks particularly are able to make more local loans. Some are meeting the rates and making surveys of credit needs in their trade areas. Others are checking their own credit files to ascertain whether their borrowers or customers have loans on life insurance policies which the bank can obtain at a preferential rate.

On March 30 banks in the Seventh Federal Reserve District were holding corn loans totaling approximately \$85,000,000 secured by 1938 corn. Under the present program these notes will have to be tendered to the Commodity Credit Corporation for purchase on or before July 1, 1939. This will accordingly reduce the loans of banks by the above figure between now and August 1. The amount of these loans held in the Seventh Federal Reserve District in the States of Illinois, Indiana, and Iowa represent approximately 75 per cent of the total corn loans made.

A number of the larger banks are directing more effort toward the development of term loans ranging from eighteen months to five years.

Despite low lending rates, earnings compare favorably with former years. Many banks are still disposed to sell their corporate bonds and in some cases are selling these at a loss in order to improve their portfolios.

One of the questions uppermost in the minds of many bankers with whom we come in contact is whether the present market on Government bonds is "too high". They are quite concerned about this because they have purchased long term Government issues in order to get some earnings and they are afraid that the loss of principal in the case of a substantial market decline would more than offset their earnings.

At the time of the March exchange offering quite a number of banks took the long term bonds instead of the notes because only

in this way could they come out "even", or better where they paid around 102 for the "June rights". Evidently a number of banks had in mind making the exchange and then selling the bonds, but the rise in market price has apparently resulted in the retention of the longer term bonds by most of these subscribers.

The absence of any new cash offering in March and the possibility that there may be none in June has probably slowed up the liquidation of some of these accounts.

Up to date livestock prices have held fairly firm with only seasonal declines; however, some concern is felt about the future of these prices, not only among the bankers and farmers but among their advisers as well, such as agricultural colleges and commission dealers.

The prices of butter, poultry products and grains have already shown some decline.

Reports received referring to both city and farm real estate indicate relatively low prices with very little changing hands.

Since the last report two State banks were admitted to membership and two State member banks in Illinois and one in Iowa filed applications to convert into national associations.

#### ST. LOUIS

During the month our officers and field representative visited 174 banks, of which 96 were in Mississippi, 27 in Kentucky, 21 in Tennessee, 14 in Illinois, 9 in Arkansas, 5 in Missouri, and 2 in Indiana.

The territory visited included the Mississippi Delta, one of the finest cotton growing areas in the world. The community relies largely upon this crop for its support, though in recent years considerable diversification has been practiced. Incomes have been augmented by livestock raising and dairy and poultry products. In 1938 the cotton crop was about one-fourth smaller than in 1937, mainly because of curtailed acreage under AAA. Quality of the staple was good and producers received relatively high prices. A very large part of the crop went into the Government loan.

Both merchants and planters are apparently worried relative to the outcome of the 1939 crop because of the enormous carry-over. Recently there has been some improvement in demand for raw

cotton from domestic spinners and for export. The volume moved, however, makes hardly a dent in the abundant reserves. The open fall and early winter were ideal for field work and breaking of ground for spring planting is further advanced than is ordinarily the case at this time of year. There is generally a surplus of farm labor.

Considerable land is being cleared for cultivation since the Mississippi Homestead Law became effective in 1937. Under its provisions tracts of 160 acres and under, occupied by the owner, are exempt from local taxes. With the improved methods of cultivation, plus extensive use of fertilizer, growers in some instances are able to produce as much cotton on their reduced acreages as when their entire plantations were cultivated. Cases were cited where farmers used their benefit checks for purchasing fertilizer. Consequently the outlook for the Government's curtailment program is not altogether bright. Much land taken out of production of cotton is being planted in feed and forage crops.

As in other sections of the Cotton Belt, commercial bankers in Mississippi complain of competition from the Governmental agencies in the field of production loans. Since the establishment of these agencies, relatively few farmers are seeking such accommodations from the country banks. Due to scant demand for credit, the banks rely heavily on service charges and exchange on checks for their profits. Unwillingness to abandon charging exchange constituted the main reason for not wanting to join the Federal Reserve System.

Quite generally there is a disposition to retire preferred stock and to eliminate portfolio items which have been criticized by examiners. Rates charged customers range from 5 to 8 per cent, with a majority of loans at the major end of the spread. Losses incurred on agricultural loans over a series of years were reported relatively light. Interest paid on deposits was reported from 1 per cent to 2 1/2 per cent. An increasing number of banks are limiting the amount of interest bearing deposits which they will accept.

When the subject of membership was mentioned to the assistant cashier of an Illinois nonmember, he stated that he and his brother, who operate the bank, were considering going out of the banking business. Each has personal means and he remarked that the small salaries and dividends received did not justify the worry of operating the bank.

#### MINNEAPOLIS

Our Second Federal Reserve Member Bank Conference was held in Minneapolis on March 25, with an attendance of 708 bankers from

every section of the Ninth District. It was a one-day meeting, opening with registration and reception of guests at our bank in the morning, luncheon at the Nicollet Hotel, followed by addresses by Mr. John H. Riddle, Economist, Bankers Trust Company, New York, and Dr. William J. Hale, Chemist and Research Consultant, Dow Chemical Company, Midland, Michigan. Questions were received in advance of the meeting from bankers and were answered by the two speakers and by officers of our bank during the open forum.

The evening before our conference, a special dinner was held for the Superintendents and Commissioners of Banks, and assistants, in Michigan, Minnesota, North Dakota, South Dakota, and Wisconsin, and the Supervising Examiners of the Federal Deposit Insurance Corporation.

#### Southeastern Minnesota.

The banks in the territory visited are, in most instances, paying 2 per cent on time certificates of deposit of the longer maturities and also on savings deposits, except in the larger centers where the rate is 1 1/2 per cent. Deposits are holding up well and in several instances, the bankers reported that they could easily increase their deposits if they so desired. Lacking a profitable outlet for their funds, however, the banks in the latter cases have discouraged additional deposits, even suggesting to depositors the advisability of utilizing the Postal Savings System. Most of the bankers in this section are looking for additional outlets for their money. Where farm loans had been made, the bankers usually emphasized the fact that such loans were on a very conservative basis. Quite generally the bankers agreed that they did not anticipate any marked increase in the local demand for money during the coming year. Rates charged on real estate loans are usually 5 or 6 per cent, and on chattel mortgage loans 6 to 7 per cent.

In several instances bankers reported competition in their local communities from individuals who were lending money directly to other individuals.

Some bankers were quite enthusiastic about results obtained from automobile and farm machinery loans. It was reported that the F. D. I. C. examiners had recommended Federal Housing Loans. Many banks, however, had made no loans of the latter nature. While some banks are still writing a considerable amount of general insurance, they are meeting stiff competition from mutual insurance companies.

A nonmember bank in West St. Paul, located in a residential district, which has deposits of about one-half million dollars, is operating in very small banking quarters with a rental of only \$27 per month. They stated examiners had informed them that there were probably but very few banks in the entire United States with deposits running into such figures which had such cheap banking quarters.

There was an evident inclination on the part of the banks to dispose of their holdings of industrial securities, substituting therefor United States Government securities, particularly those with short maturities. There was also a noticeable trend in shifting from long-term to short-term Government issues.

Throughout this territory there are many fine dairy herds. Cattle prices are uniformly high and buyers from Kansas, Missouri, and southern States have purchased cattle here at good prices. Many bankers reported that dairymen in their sections were becoming disturbed over Southern competition and were generally agreed that such competition would have an adverse effect on this territory which would become more pronounced during the next few years. Prices at auction sales have been very good, the average price paid for milch cows at a recent sale being \$81. It was generally recognized that the present situation was unusual with respect to such prices in view of the fact that prices for feed were low. There was a general belief that the present situation was temporary in nature and some adjustment might soon be expected, probably a decrease in livestock prices.

The opinion was freely expressed by the bankers that the farmers generally considered the national administration had failed in many of its major objectives, particularly with reference to its farm program.

#### Southern Minnesota.

A majority of the bankers report the earnings for 1938 as approximately the same as in 1937. Two and two and one-half per cent is the usual rate of interest paid on time and savings deposits. Banks in the smaller communities have been able to make a considerable number of loans, mostly chattel mortgages, and they are getting 7 per cent interest on them as a rule. Then, too, the banks are carrying a large amount of corn loans, which they propose to turn over to the Commodity Credit Corporation next summer. Banks in the area visited are carrying from \$10,000 to \$100,000 of such loans, depending on the size of the bank. There are no wheat loans in the territory covered as it is devoted almost entirely to cattle feeding, hog raising, and dairying.

Several national bankers mentioned they were thinking about the earnings from exchange that they are missing, but none had made up his mind to withdraw from the System in the immediate future.

The Corn Belt Region Clearinghouse Association met at Mountain Lake several days ago and approximately seventy-five bank officers, directors, and employees from four counties attended. Float charges were the principal topic of discussion, and in one of the counties no bank was making float charges. I was told that one reason for the lack of uniformity is that so many of the non-par banks are satisfied with the exchange charges and do not want to adopt float charges for additional earnings.

#### KANSAS CITY

An unusually spotted condition exists in regard to the demand for loans. Cattle feeding has been uniformly profitable throughout the District and the liquidation of old loans and the negotiation of new ones have gone forward normally. In particular, there has been a demand for funds to purchase young cattle because of an excess of rough feed and the prospect for more pasturage this summer than the limited number of livestock will utilize. But a good many farmers have been unable to purchase livestock as they are short of security and livestock prices are far too uncertain to justify full purchase price loans. In communities where there is little livestock financing, money is reported a drug on the market.

Profitable feeding operations have created considerable local demand for corn and as a result corn prices, it is said, are in many places equal to Government loan values. It appears that last fall and winter many farmers sealed their corn at 57 cents a bushel and with the proceeds purchased corn for feeding purposes from non-cooperating farmers at 35 or 40 cents a bushel. The local demand for corn for livestock feeding has apparently done much to close that gap. Some difference of opinion exists in regard to the outlook for livestock prices. Many bankers and farmers are convinced that livestock prices will remain high for a considerable time, but in other quarters there is skepticism and some fear that large imports of foreign cattle will cause trouble.

In livestock communities where the demand for money has been good, some cases were found where banks have been selling bonds to take care of loans. A few cases were found where banks have sold bonds even though they do not need the money.

Some nonmember banks expressed the opinion that the law should be changed to permit them to join the System without making certain capital adjustments that, in their case, are out of the question. Bankers ask many questions about various phases of the Federal Reserve System and, especially, in regard to a widening of loan eligibility requirements. Many bankers are quite unfamiliar with the nature and operations of the Federal Reserve System.

Country banks report that they are receiving many inquiries from banks located in all parts of the country sounding them out as to the rate of interest they would be willing to pay on time deposits. In particular, where a bank's statement shows that it is approaching the limit in regard to loans, banks are offering to deposit funds on a time basis. There seems to be some question among bankers as to whether such deposits would be covered by deposit insurance.

Correspondent banks appear to be advising country banks to restrict their investments in Government securities to short-term maturities. But there is a tendency to question the wisdom of this advice. Country bankers tell our representatives that they see reports that insurance and other such lending agencies are increasing their holdings of long-term bonds. It is also said that city banks themselves are tending to shift into longer term securities. The better yields obtained in more distant maturities as compared with bills and notes is the moving factor causing country banks to look with favor on bonds.

#### DALLAS

Of the eighty-six bank visits made by our officers during the month, fifty-three were made pursuant to our regular program of bank relations activities, while the remainder were for the purpose of negotiating with certain nonmember institutions in regard to furnishing us immediately available funds in payment for cash items sent them by our bank.

#### West-Central Texas.

Livestock raisers are enjoying one of the most prosperous eras in the history of the industry as a result of the continued high level of market prices and favorable range conditions.

Member bankers in the visited area voiced no dissatisfaction with their Federal Reserve relations and but few complaints regarding other aspects of the banking situation. The criticism that was most frequently expressed was directed against the spending and lending operations of Governmental agencies, particularly in the activities of local units of the Rural Resettlement Administration.



Every member bank that was visited took occasion to comment adversely on the proposal which has been advanced in certain quarters that the deposit insurance coverage now afforded by the F.D.I.C. be increased from \$5,000 to \$10,000 for each deposit account in insured banks. It was the consensus that the experience of the F.D.I.C. up to this time has not demonstrated a tangible need for enlarging the scope of deposit insurance.

Numerous country bankers vigorously denounced the proposed transfer of the Federal Reserve Banks to Government ownership, as advocated in the Patman Bill.

According to the information given our representatives, the demand for credit at rural banks in this section of Texas is heavier than it was a year ago. Certain of the visited banks which have not used Federal Reserve credit for several years indicated that they might need our loan facilities this year.

#### Southwest Texas.

With one exception the areas visited are suffering from a severe drought which has now lasted three years. Heavy and expensive feeding has been necessary to sustain livestock through the past winter months and these costs, in the case of sheep and goats, will tend to reduce materially the normal margin of profit on sales of spring wool and mohair.

Cattle prices and demand continue strong, with buyers actively bidding for cattle of all classes. Stocker cattle are in especially strong demand. Livestockmen generally are in sound economic position, with taxes and other maturing fixed charges on a current basis and their miscellaneous debts reduced to nominal amounts.

Complaints by bankers regarding the competitive tactics of Production Credit Associations range from mild resentment to bitter protests. The reduction of the P.C.A. interest rate to 4 1/2 per cent has made it increasingly difficult for banks to meet the aggressive competition of these agencies for prime accounts. A few banks have effected a moderate recovery of ground lost in their earning position by engaging in or expanding loans against F.H.A. housing operations, real estate and installment paper.

#### SAN FRANCISCO

##### Santa Clara Valley.

Conditions throughout the valley were reported to be

satisfactory, except as to the outlook for prunes. The apricot crop is expected to be light, with a fair price outlook. Bank deposits are increasing. Some banks are not accepting deposits from their regular customers and are declining to accept new accounts.

Lower Sacramento Valley.

The crop outlook was good, with the exception of unirrigated lands. There has been a shortage of moisture, with the consequent outlook that there will be a shortage of feed in some areas. Unless there is further rainfall soon, the barley harvested will be light. There is a considerable carryover of agricultural products, such as beans and rice, and the outlook for prices, generally, is unsatisfactory. However, fairly good prices are expected for a large asparagus crop. There is a large amount of building activity around the city of Sacramento. For this reason and due to unusual activity of a United States Government airplane repair factory, there is reported to be a shortage of skilled mechanics. Generally speaking, banks were finding active demand for loans throughout this territory.

## PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

March - 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	--	--	--	1	<u>1/</u>	--	--
New York	152	68	220	8	2,768	<u>2/</u> 2	40
Philadelphia	44	38	82	7	<u>3/</u> 2,575	6	571
Cleveland	137	61	198	7	1,415	2	152
Richmond	44	37	81	5	2,940	<u>2/</u> 5	230
Atlanta	17	16	33	5	610	<u>2/</u> 3	355
Chicago	16	7	23	2	230	2	95
St. Louis	39	135	174	4	502	3	98
Minneapolis	67	88	155	5	876	<u>4/</u> 5	--
Kansas City	30	53	83	5	172	4	154
Dallas	51	35	86	--	--	--	--
San Francisco	31	13	44	12	751	1	250

1/ Attendance not reported.2/ One broadcast.3/ Attendance not reported for two meetings.4/ All broadcasts.