

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 17, 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 April, 1939, in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

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

L. P. Bethea,
Assistant Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

May 13, 1939

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

FROM Mr. Daniels, 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 April. Excerpts therefrom will be found on the following pages, at the end of which is a table showing the number of visits made, meetings attended, and addresses delivered. The following are a few of the items of interest included in the reports:

In the Boston District no dissatisfaction was expressed at any bank with the services rendered by the Federal Reserve Bank, although one banker visited stated that he would prefer to do his seasonal borrowing from the Federal Reserve Bank were it not for the 15-day requirement when Government securities were pledged.

One nonmember State bank in New Jersey, which withdrew from membership in the F.D.I.C. in 1935, reported that deposits had increased 50 per cent since then. This bank anticipated that withdrawals would result from publicity incident to the closing of the New Jersey Title Guarantee and Trust Company of Jersey City, but it is said deposits were not affected. In fact, no questions were asked about insurance.

Among the banks visited in the Philadelphia District the trend of interest rates both for loans and deposits is still downward. Good loans command rates of from 4 per cent to 5 per cent. The majority of banks are paying two per cent on time and savings deposits.

In the Cleveland District the lack of demand from commercial borrowers is said to be definitely increasing loan totals represented by mortgage security.

There is much uneasiness among business men and bankers in West Virginia because of the coal strike. If the strike is prolonged it will have an uneven but depressing effect throughout this region.

Officers of each of the member banks visited in the Atlanta District stated that the services being rendered them by the Federal Reserve Bank were entirely satisfactory, and the attitude of nonmember banks was found uniformly friendly.

Due to the continued difficulty in employing funds there seems to be a tendency on the part of banks visited in Wisconsin and

Illinois to a further reduction in interest paid on deposits. Considerable interest in membership was shown by nonmember banks.

The president of a Mississippi nonmember bank expressed the opinion that city banks are discouraging country bank membership in the System as this would necessitate a portion of their balances being transferred to Reserve banks.

In Southwestern Minnesota it appears that bankers are gradually drifting back to real estate loans, with a prevailing rate of from 4-1/2 to 5 per cent. An insurance company in Milwaukee has just announced that it will make real estate loans on a basis of 4 per cent. Very favorable comments were made regarding the annual member bank conference, and bankers were unanimous in their opinion that it should be an annual affair.

In the Kansas City District bankers commented on items appearing in the newspapers to the effect that insurance companies are going into communities and making long-term loans at very low rates, often at 3 per cent. These loans run as long as ten years and sometimes have no amortization feature. Several nonmember insured banks mentioned that they were receiving a good many letters from eastern banks and corporations offering time deposits at from 1-1/2 to 2-1/2 per cent.

Further excerpts from the reports follow. The reports themselves are attached to the original hereof.

BOSTON

During April visits were made to 20 member banks and 4 non-member banks located in several of the smaller cities and towns in Massachusetts, Rhode Island, Connecticut and Vermont.

The only complaint heard generally was that of an insufficient volume of loans. However, the loan portfolios at practically all of the banks visited are slightly larger than a year ago.

The few individual complaints heard were with respect to (1) lack of consistency on the part of certain Governmental agencies and the bank examiners with regard to the desirability of certain types of loans; (2) pressure for lower loan rates coming from small borrowers; (3) competition from out-of-town banking and non-banking lending agencies for local loans, particularly for mortgage and "town loans".

The matter of reducing interest rates on savings deposits is being considered by several banks, all of which are now paying the maximum amount allowed by law.

Retail trade at all points is reported to be unsatisfactory due partly to unseasonal weather conditions. In one or two communities factory pay rolls were said to be somewhat larger than a year ago.

Lending rates at the banks remain unchanged. Loans to towns, made in anticipation of tax receipts, range from $1\frac{1}{2}\%$ to 5%. Few towns borrow locally. Customer's rates range from $4\frac{1}{2}\%$ to 6%, the majority of loans carrying the latter rate.

NEW YORK

The third of a series of four monthly conferences devoted to the study of bond investments, conducted by the Committee on Bond Portfolios of the New York State Bankers Association, was held in the auditorium of the Federal Reserve Bank of New York on Monday, April 17. Between the morning and afternoon sessions the visiting bankers and others, numbering approximately 550, were guests of the Federal Reserve Bank at luncheon in its dining room.

During the month of April, our officers and representatives visited 171 banks of which 130 are member and 41 nonmember institutions.

Hunterdon, Somerset, Sussex, and Warren Counties, New Jersey

Twenty banks, including one savings institution, are paying interest at $1\frac{1}{2}\%$ per cent, while the remaining seventeen continue to pay 2 per cent.

A number of bankers state that they are limiting new purchases of securities to United States Government issues, and a majority of the institutions show a tendency to dispose of railroad and some other corporate bonds as favorable opportunities arise, and to reinvest the proceeds largely in Governments and municipals.

Although twenty-one institutions have expanded their loan accounts, most of the increase is confined to four banks which have shown considerable aggressiveness in going after new business.

Officers of member banks are cordial, and appear well satisfied with our services and with membership in the Federal Reserve System.

Officers of nonmember banks are, in general, friendly to the Federal Reserve System but none show interest in membership at this time.

The eastern part of Somerset County lies within the metropolitan area and many of its residents commute to business in New York City and Newark. Among the important industries in Bound Brook are the Calco Chemical Company, a subsidiary of the American Cyanamid Corporation which is employing 1,800, but operating on a reduced scale so that the weekly income of the workers is low although future business prospects for the company are said to be brighter; the Bakelite Corporation which is operating steadily with normal employment of between 700 and 800; and the plants of the Sherwin-Williams Company (manufacturing insecticides), and the Ruberoid Corporation (roofing materials) which are running at about 50 per cent of capacity, with combined employment rolls of 500. Although there is no real unemployment here, the reduced income of the workers has affected retail trade and merchants are complaining of poor business and collections.

In Hunterdon County, operations of the Taylor-Wharton Iron & Steel Company at High Bridge are on a 50 per cent basis, and local conditions are described as being worse than in 1932. Employment has been maintained for 500 on a staggered basis. The Riegel Paper Company plant at Milford which is said to have been shut down less than thirty days in the thirty years of its existence continues to operate at full capacity with a normal force of 800 workers. The principal industrial concerns in Sussex and Warren counties are the Ingersoll-Rand Company (Phillipsburg), the Pohatcong Hosiery Mills (Washington), and the New Jersey Zinc Company, which operates mines at Franklin. Of these three, only the zinc company is operating on a normal basis and although the demand for its products is poor at this time, operations are being continued and the ore stored.

Dairying is the principal agricultural activity in these counties, and conditions are very unfavorable as a result of the discontinuance of the Federal-State Milk Marketing Agreement.

Union County, New Jersey

Union County is located in the northeastern part of New Jersey within the metropolitan area. The principal industrial city and the county seat is Elizabeth, located sixteen miles southwest of New York City and about five miles south of the business center of Newark, New Jersey.

With few exceptions all banks report a depreciation in their security lists although the amount is relatively small in most cases depending upon the amount of railroad and substandard bonds held.

The demand for credit is very light and loan portfolios continue to decline gradually. It was pointed out by officers of the two largest banks in the county (deposits \$17,000,000 and \$15,000,000

respectively), that their loans and discounts exclusive of mortgages amount to only about 10 per cent of total resources.

There appears to be very little improvement in the general business and industrial situation in this county although some concerns are operating at fair to good capacity.

Suffolk County, New York

Suffolk County comprises more than two-thirds of the area of Long Island and extends eastward from Nassau County to the end of the Island. It has a year-round population of approximately 180,000 which is almost doubled during the summer months as there are many well known summer resorts throughout the county.

Some of the bankers have been taking profits on medium term United States Government bonds and reinvesting the proceeds in longer maturities of the same type of security. Several who have been limiting new investments to United States Government, State, and municipal issues have been reducing the total of corporate bonds to the aggregate of surplus and undivided profits of their banks in order to prevent any possible impairment in the common capital. Twenty-two commercial banks report some appreciation in their investment portfolios while twenty-three show depreciation. Two of the four savings institutions have appreciation in their bond accounts.

In general, the bankers report having granted approximately the same amount of credit to farmers this spring as last year, at rates from 5 to 6 per cent, in spite of the fact that the Production Credit Association at Riverhead has reduced its loaning rate from 5 to $4\frac{1}{2}$ per cent.

The banks in the county have made about \$300,000 home repair loans under the new provisions of Title I of the National Housing Act and eleven institutions have granted an aggregate of \$500,000 Title II mortgages. The Federal Housing Administration authorities, in cooperation with the Suffolk County Bankers Association, recently held a meeting in Riverhead which was attended by about 200 people. The purpose was to stimulate the modernization of old homes and the construction of new ones by means of loans under the National Housing Act. Many of the bankers say that they have granted loans under their own plan to repair homes and barns which were damaged during the hurricane last September and have placed few loans of this type under Section 6 (hurricane section) of Title I of the National Housing Act or through the Disaster Loan Corporation. One of the bankers who is serving on the county committee for the Disaster Loan Corporation states that approximately \$200,000 in loans of this type have been granted so far.

Banking houses and fixtures represent about 39 per cent of the book capital funds of all the banks in the county.

The member bankers are very friendly to the System and voiced no dissatisfaction with our services. Officers of two of the eleven nonmember banks state that they intend to discuss the subject of membership in the System with their directors in the near future.

Many bankers report that the financial statements of the farmers, submitted this year, show small losses for 1938 in a number of instances, due apparently not only to the low prices received for potatoes but also to the extra expense incurred in making repairs to their barns and houses which were damaged by the hurricane.

Duck growers suffered little loss during the storm, the principal damage having been to their sheds, a number of which were blown down. The duck raising industry is said to be in the hands of about 82 growers who are expecting to ship approximately 5,500,000 pounds of duck (average duck about six pounds) this year as compared with 4,600,000 pounds in 1938. Current prices are quoted at fourteen to sixteen cents per pound. The oyster companies suffered considerable loss this year as a result of the shifting sands during the hurricane which, in many cases, covered their oyster beds.

Summary of Preferred Capital Issues

In the six counties covered in this report, there are 105 commercial banks of which 67 have issued preferred stock, capital notes, or debentures aggregating \$10,925,305 par value. Up to the present time 15 have paid off their entire issues amounting to \$1,105,000, 35 have made partial retirements totaling \$1,367,120, and 17 have not retired any - leaving 52 banks with total issues still outstanding of \$8,453,185 par value, retirable at \$13,002,413, reflecting redemption premiums of \$4,549,228.

PHILADELPHIA

Conditions in the area covered by this report were found to be fairly satisfactory. In general, industrial conditions are somewhat better, although some concerns were said to show a lessening in activity. Indications are that the shipyards will be able to maintain their present rate of activity and possibly increase it somewhat. The large plant of the Baldwin Locomotive Works was said to have increased its pay roll and is expected to be fairly busy for some time to come. The steel products concerns are not doing so well, and a large silk mill and a linoleum factory have curtailed operations. A large public utility has not yet restored a 10 per cent pay roll reduction put into effect a year ago. Two of the major oil companies having refineries in this area find it necessary to enlarge their capacities in order to take care of increased business demands.

New Castle County, Delaware

Total resources of all banks have increased nearly \$12,000,000 since September, 1938, as a result of increased balances at the large banks in Wilmington and the continued influx of corporations from other States because of the favorable tax situation here. Demand for credit is declining and bankers are searching for new outlets for funds. As a result, advantage is being taken of the provisions of the National Housing Act, and personal and automobile loans are being extended in appreciable volume.

The banks of the county under review hold nearly 75 per cent of the total resources of all banks of the State. At the largest institutions Government obligations are preferred to other types of securities because of their desire to maintain a high degree of liquidity. At most of the other institutions the total of municipal and corporate issues exceeds the holdings of Governments.

Effective May 1st all banks in the county are reducing the interest rate on savings deposits from $2\frac{1}{2}$ per cent to 2 per cent.

Chester County, Pennsylvania

Total resources of all banks are about \$900,000 greater than a year ago, as the result of a general increase in deposits throughout the county. Credit demand is spotty. Some bankers report that it is satisfactory and others say that the total of loans continues to decline. The FHA mortgage field has been well accommodated and many institutions are extending personal and automobile loans. Rates on loans vary but except for FHA, personal, and collateralized loans, the 6 per cent rate prevails.

Delaware County, Pennsylvania

The demand for credit ranges from light to fair. FHA, personal, and automobile financing are being engaged in extensively and at those institutions having a large amount of classified paper, liquidation was said to be receiving careful attention.

CLEVELAND

In conversations with bankers visited during the month, much concern was expressed regarding the future of the bond market. In a number of instances it was reported that maturing issues are not being replaced. The present high level for Government issues appears to be a temptation to a number of banks to take profits. In other instances there is reported a tendency to shift from long-term to short-term issues. Notwithstanding that, in this district there still appears to be a marked preference for longer-term bonds.

There is increased interest in the establishment of installment loan and personal loan departments in banks. Within the recent past the largest commercial bank in the district has created a personal loan department.

Complaints are still being received of competition on the part of Government lending agencies and of insurance companies. In a few cases this competition is being combatted through a vigorous campaign of solicitation for desirable loans and a reduction of loan rates of long standing to those offered by other lending agencies. On the other hand, instances are reported of banks refusing to make desirable loans at five per cent merely because of a desire to adhere to the long-established custom of charging six per cent.

The board of directors in one bank in the district has recently passed a resolution prohibiting the future purchases of corporate bonds.

In at least two instances, nonmember banks approached regarding membership have indicated that the principal deterrent is the fact that as a member bank too many reports are required. One member banker has stated that approximately one-half his time is consumed in making reports to the various supervisory agencies.

In a few scattered instances, banks which have reduced the rate of interest on time deposits below two per cent are experiencing some withdrawals of funds to go into postal savings at a higher rate. There is also some competition from savings and loan associations paying higher rates than the maximum rate permitted by Regulation Q of the Board and Regulation IV of the F.D.I.C. The maximum rate of which we have any record paid by building and loan or savings and loan associations at the present time is five per cent.

RICHMOND

Baltimore, Howard, Montgomery, and Prince Georges Counties, Maryland

Bankers throughout these counties are uniformly of the opinion that there is no need for the proposed regional intermediate credit banks; that the new examination procedure is satisfactory; that the proposed increase in insurance coverage of bank deposits is of no special interest since practically all accounts are covered at present; that the tabulation of operating ratios of member banks by this bank is highly useful for sake of comparison.

Banks in this locality generally pay two per cent on time deposits. To earn these rates banks continue to adhere to a six per cent rate on local loans, with only occasional departures, and but

slight dependence upon service charges. There has been but little outside competition for loans and hence no pressure to reduce the lending rate. The trend of investment policy favors Government rather than corporate issues. Some banks have concentrated rather heavily on un-insured mortgage loans while others have favored FHA loans.

Allegany and Garrett Counties, Maryland

Banks in this region report a tendency for savings deposits to increase, while demand deposits remain stationary. As of May 1 the banks of Cumberland contemplate a reduction of the rate on demand deposits to $1\frac{1}{2}$ per cent, but county banks will continue to pay 2 per cent and in some cases $2\frac{1}{2}$ per cent. Generally speaking, loans carry a 6 per cent rate, although a rate of 5 per cent is made on mortgage loans and yet lower rates are available under certain conditions.

Shenandoah, Warren, Frederick, Clarke, and Loudoun Counties, Virginia

There has been a seasonal expansion of loans in this locality and the volume is generally considered encouraging. Most banks charge six per cent on local loans and it appears that this rate has encouraged little outside competition. A rate of five per cent is made on real estate loans. Investments consist of Treasury issues, State and municipal bonds, with but few corporate bonds. In a few instances banks have recently sold Treasury bonds, taking the profit and holding the cash for reinvestment when these issues decline. Bankers feel that they are taking care of all legitimate demands for credit and that there is no place for an additional agency.

Nicholas, Braxton, Webster, Roane, Jackson, and Marion Counties, West Virginia

Banks in this region feel that there is no need whatever for the proposed intermediate credit banks; that the present FDIC coverage is ample and that little would be gained by extending it; that the present examination procedure is satisfactory; and that the statement of operating ratios compiled by this bank is most helpful. Any extension of competing credit agencies by the Federal Government would be resented, for the existing agencies provide a competition which is viewed with disfavor. Thus, there is complaint because of the decline of deposits which is traced to the purchase of savings bonds by depositors and of the loss of business to the Home Owners' Loan Corporation.

Banks generally pay 2 per cent on time deposits and $2\frac{1}{2}$ per cent in some cases and charge 6 per cent on loans. Service charges are unevenly developed and with some hesitation, although the results are considered satisfactory.

Marion and Horry Counties, South Carolina

The volume of loans shows a seasonal expansion which may be somewhat greater than that of last year. It is usual for banks to charge a rate of 7 per cent for the life of a crop production loan, but to impose no restriction upon withdrawal of funds. In addition to this charge, the borrower usually must bear the revenue tax and pay for drawing and recording the crop or chattel mortgage. Crop Production Associations operate with some success in this locality and bankers take little exception to their loans, but they do appear to resent their methods of solicitation. In general, bankers feel that these associations are beneficial since they make non-bankable loans for the most part. But this is largely an impression that has not been verified by investigation. A few "lien merchants" still operate and they, together with the Seed Loan Fund, assume credit risks too great for either banks or Production Credit Associations.

ATLANTABaton Rouge, Louisiana

The bankers in Baton Rouge advise that business conditions in general are considered good. The aggregate of loans to customers at the three banks in Baton Rouge is about the same as a year ago, but deposits show increases. All three banks report satisfactory earnings for 1938 and state that current earnings are exceeding those for the comparable period of last year.

The banks derive a substantial income from small personal loans and the bankers state that their experience with this type of business has been satisfactory and profitable. There is considerable activity in the construction of medium priced homes, financed principally through Federal Housing Administration. One of the National banks is enthusiastic over this type of business and believes that it is a desirable and profitable source of revenue.

Gulf Coast

Our representatives visited 5 member and 1 nonmember bank located in the cities of Mobile, Alabama, Pascagoula, Mississippi, and Biloxi, Mississippi. It was reported that retail business in Mobile for the first quarter of 1939 had shown a slight increase over the same period of 1938. There has been an appreciable decline in shipping and the lumber business, which has been largely offset, however, by increased activity in two comparatively new industries, viz: The Aluminum Company and The Gypsum Company.

One bank reported that its recently organized personal loan department has proven very profitable and that it plans to increase its present \$80,000 volume of this class of loans to \$500,000.

A number of new industries are being established in Pascagoula, principally the Jackson County Knitting Company and the Ingalls Dry Dock & Ship Building Company. The Jackson County Knitting Company, when in full operation, will employ approximately 700 workers. The plant of the Ingalls Dry Dock & Ship Building Company is expected to be in operation by August of this year and will employ around 300 in its official and clerical staff and approximately 1,000 workmen.

It is anticipated that retail trade, not only in Pascagoula but in a large surrounding territory, will greatly benefit from the increased industrial activity.

The president of the nonmember bank in Pascagoula expressed the intention of applying for membership in the System within the near future.

Business conditions in Biloxi were reported as fair. This city depends largely upon its fish and oyster industry and tourist trade for its support. It was reported that the oyster business was below normal this year, due to a very dry fall and winter in the immediate section, and that the tourist trade was somewhat off from the previous year.

Southeast Mississippi

Bankers in the Southeastern Mississippi area consider banking activities favorable. Although the demand for loans is comparatively "slow", seasonal agricultural lending has been up to normal and other loans compare favorably with the same period last year. In no instance did bankers express a belief that Government lending through production loans had deprived them of any agricultural business. On the contrary, it is felt that such lending is serving a vital need to small farmers. One banker stated that many farmers in his territory preferred to borrow from the local banks at a slightly higher rate of interest rather than bother with the "red tape" involved in Government production loans. A number of banks are encouraging personal loans.

Without exception, increases in bank deposits were noted in the banks visited and all are faced with the problem of investment of idle funds. Interest at the rate of 2% is paid on savings

deposits throughout the area; however, there is a definite trend toward a lower rate. The bankers are unanimous in the opinion that the rate should be lowered but, due to the rate of 2 1/2% paid on Postal Savings, fear adverse effects from such a reduction.

A majority of the banks visited have adopted a systematic schedule of service charges which, according to reports, have proven very satisfactory.

CHICAGO

During the month calls were made on 75 member banks and 48 nonmember banks situated largely in southeastern Wisconsin and central and northwestern Illinois.

Some of the banks in the smaller cities visited, taking their cue from the larger city banks, are making term loans. Personal or small loan departments are becoming increasingly active.

In Illinois a number of banks have outstanding deferred certificates payable out of earnings. Efforts are now being made to work out some arrangement whereby these claims can be compromised and loans obtained from the Reconstruction Finance Corporation for the purpose of paying off these certificates in order that earnings may revert to the banks.

There seems to be an increasing number of complaints concerning Government competition. In several cases Federal Land banks were reported as competing in making small loans at lower rates than the local bank is willing to quote. Bankers are particularly distressed by the activity of the Production Credit Corporation, which is very aggressive in many places. These agencies frequently make "cleanup" loans to farmers which take loans from the banks that they have been carrying at a risk for some time and that are now reasonably secured. The purchase of United States Savings Bonds was given as the principal competition in places where no interest is paid on time deposits, although reference was also made to Postal Savings.

A Legislative Bulletin, dated April 19, 1939, issued by the Wisconsin Bankers Association carries a statement signed by the Wisconsin Member of the American Bankers Association Federal Legislative Committee and the Chairman of the Wisconsin Bankers Association Legislative Committee from which the following is quoted:

"It is the opinion of the undersigned that enactment of bill S.2045 should be vigorously opposed...Enactment of the proposed bill would, in effect grant an insuring agency powers of actual supervision and determination of banking policy. It would result, as one well known banking authority has so aptly stated, in making the F.D.I.C. both judge and jury..."

Considerable interest is also being shown in Senate Bill No. 2035 introduced by Senators Gillette and Herring, which would permit National banks and Federal Reserve State member banks under certain circumstances to establish bank offices.

ST. LOUIS

During the month our officers and field representative visited 194 banks, of which 65 were in Tennessee, 56 in Arkansas, 21 in Mississippi, 20 in Illinois, 17 in Kentucky, 8 in Missouri, and 7 in Indiana.

The section of Tennessee visited practices crop diversification extensively. Largely for this reason, there is a considerable degree of prosperity in the agricultural communities. In one county, it was stated, farmers raise as many as eighteen different cash crops. Among the chief products are strawberries, peaches, apples, tomatoes, cabbage, beans, etc. Attention is also given to livestock and poultry raising. Due to the backward spring, shipments of strawberries have been relatively small. Damage to fruits generally from the early April freezes is less severe than it was first thought.

Under Government regulations, the acreage to be planted in cotton this year will be smaller than last. Farmers' incomes have been substantially augmented by Government benefit payments. Bankers are encouraging farmers to plant a better grade of cotton seed, also to increase their livestock operations.

Trade conditions were found to be generally satisfactory. Small merchants were benefited by Government payments, and their collections were reported good. So far as could be learned, retail inventories are of reasonable size, and almost universally smaller than at this time a year ago. Retailers are purchasing very cautiously. Building is not active, and is confined principally to public works and small residences, the latter financed mainly through FHA.

Tennessee Valley Authority service is being extended in- to certain towns, and was reported to have resulted in a reduction of rates for electric power as high as 80 per cent.

Many small personal and farm loans are discounted at 8 to 10 per cent. On savings and time deposits 2 to 2 1/2 per cent is paid. In some towns efforts have been made to reduce the rate, or abolish interest on time deposits altogether, but local competition has prevented the efforts meeting with success. A number of banks have recently adopted a schedule of service charges. As in other agricultural sections of the district, bankers complain of competition from C.C.C. and other Governmental loaning agencies. Several banks report satisfactory results from recently formed small loan departments.

Years ago the president of an Arkansas national bank was critical of the System. Since his experience in 1933 he has become a changed man and his attitude is far more friendly than heretofore. He is apparently not only satisfied with, but really enthusiastic about our cash and non-cash collection services, particularly the collecting of cotton drafts. He claims that we collect them faster and safer than the commercial banks and he proposes to send all such drafts to us in spite of the objection of the local cotton buyers.

The cashier of an Illinois national bank stated that our monthly review of business conditions is being regularly distributed among business men in the vicinity who request it. Much favorable comment concerning this publication has been received.

During the past month, four Arkansas nonmembers have displayed unusual interest in membership. It is believed that a former member bank among them will make application by September 1, and that another will nationalize. The officers of another of these banks said that as soon as the exchange question is worked out satisfactorily, they would apply.

The active president of a Tennessee nonmember stated that FDIC examiners have been a big help to him in bringing about a more satisfactory condition of his bank. He feels that examinations by the State should have been more thorough.

A small Tennessee nonmember stated that complaints from customers made it necessary to discontinue a portion of its service charge schedule placed in effect early this year. The bank has an unusual arrangement whereby it furnishes safe deposit boxes free of charge to customers.

Officers of a small Mississippi nonmember criticized agricultural lending agencies as the bank had less demand for credit this season than last. The bank's president, however, was inclined to put the responsibility for this competition on the local organization. He feels that the Government did not intend these organizations to be competitive with banks.

MINNEAPOLIS

West Central Minnesota

Virtually all the banks visited showed an increase in deposits; and in almost every instance, it was due to the good prices derived for cattle and hogs sold in the past six months. Most of the bankers were of the opinion that both cattle and hog prices have reached their peak and look for lower prices by early fall. It is rather difficult to reconcile a price of \$75.00 to \$80.00 for a good milk cow with butterfat selling at 20¢ to 23¢ a pound.

There is virtually no sale of farm lands. This situation is explained by the fact that the Federal Land Bank, the Rural Credits of Minnesota, and insurance companies have a great number of farms for sale and are disposing of them at very reasonable prices, small down payments, and long term contracts.

The Production Credit Corporation does not appear to be in direct competition with the banks in this section of the State except in Alexandria, Minnesota, where they make an active campaign for chattel loans.

The bankers were all elated over the legal bank tax law recently passed by the Minnesota legislature which places a 6% excise tax on net earnings in lieu of all other taxes except taxes on real estate. The law provides that the taxing of capital, surplus, undivided profits, reserves, or other funds, is to be discontinued. It is felt that this legislation should be an inducement to the banks in Minnesota to build up their capital structure, as well as encourage disposition of their Other Real Estate.

The European situation seemed to be one of the principal topics of conversation. They were quite concerned over the effect a European war would have on the price of securities.

Southwestern Minnesota

The bankers visited expressed the opinion that although the Government's corn-purchasing plan had proved temporarily beneficial, nevertheless they did not consider the plan if extended over a period of years either sound or beneficial in the stabilization of farm prices; they felt that the Government's substantial corn-holdings would depress the future price of corn; and that over a period of years Government intervention to support prices would do more harm than good.

Many farmers have cattle on feed, and bankers are in a quandary as to whether they should insist upon their borrowers disposing of these cattle at once, for they feel that in comparison to the cost of feed, the prices are exceedingly high. The bankers were unanimous in their prediction that we would see a substantial drop in the price of fat cattle some time before the middle of summer.

The bankers as a group were exceedingly pleased over their earnings for 1938, which were excellent. This condition is accounted for by a substantial increase in local bank loans, for there has been a heavy demand during the past eight months. One banker said: "It seems that when the farmers are making money, they borrow more during prosperous times than during periods of depression."

The nonmember bankers in this territory are earning about 10% of their common capital from exchange. There is not one potential State member bank in the group visited.

Three banks visited have been State members at one time. They have withdrawn from the par list for the purpose of procuring additional earnings from exchange.

North Dakota

General conditions in North Dakota at this time of year seemed fair, with considerable seeding already done, and apparently there is plenty of hay and grass. There is sufficient moisture (in the ground) to start this year's crop, but it is evident that rain is badly needed to warrant fair yieldage in the State the coming season.

Bankers appeared fairly optimistic, and are hopeful for the future.

West Central Wisconsin

Several of the nonmember banks visited have a deposit volume sufficiently large so that they have been thinking about Federal Reserve membership. One said that he would give up FDIC insurance rather than lose his income from exchange but a majority were expecting to apply for membership by 1942.

A nonmember banker with a substantial bond portfolio thanked the Federal Reserve System for "killing" the bond safe-keeping charge formerly made by correspondent banks, which was saving him several hundred dollars a year.

All but one of the banks where the matter was discussed made it a rule to purchase Savings Bonds regularly and that one bank had purchased them occasionally. A few have a definite policy regarding the sale of bonds selling at a premium but a majority do not. The usual rule is to sell when the premium amounts to three times the income although one banker always sells when he "can collect two years interest in advance."

Because of the small volume of local loans at most of these banks, the low yield on bonds has made it very necessary for them to reduce expenses wherever possible and to seek increased income from services rendered. One banker has struggled with his local association of bankers for more than a year in an attempt to reduce the rate of interest paid from 2% to 1 1/2%. He has about decided to make the reduction on July 1 regardless of what action his association may take, if any.

In general, bankers not only hoped but expected that 1939 earnings would be larger than in 1938.

Retailers interviewed and bankers, too, reported business as "slow". Reduced farm income and assignments of that income left little for normal seasonal expenditures.

Most of the bankers seem to realize that much of their dairy farming customers' financial difficulties are the result of "too many boarder cows". Cow testing was formerly conducted in this area at the expense of the county and the State but now that those funds are no longer available, most of the cow testing associations have been abandoned.

The morale of the farmers (and the townspeople, too) was frequently reported to be "low", even "awfully low". Bankers were not inclined to excuse them because of the current low income

period as the same condition existed in 1937 when incomes in this section were much higher. The younger generation of farmers do not equal their parents in farming ability nor willingness to work yet they demand and have many more conveniences and/or luxuries than their parents had.

Several bankers, member and nonmember alike, stated that they had received a larger number of requests for loans than a year ago but had granted fewer of them, largely because their applicants were less credit worthy than in the spring of 1938.

The FDIC was quite generally credited with reestablishing confidence especially in the smaller banks.

The REA and EHFA were criticized quite generally for the large portion of the farmers' purchasing power that they were consuming. No one begrudged the farmer all the conveniences he could afford but in many instances farmers had been "sold" on REA and could not afford it.

KANSAS CITY

A friendly feeling to the Federal Reserve System was found virtually everywhere in making visits to banks in April. Banks appreciate certain services and a number of nonmember banks frankly admitted they were at a disadvantage in these respects.

On the whole, bankers are in a reasonably good frame of mind. Last fall and winter were very dry and the farm outlook anything but promising. But since the first of the year rainfall generally in the District has been normal and as a result the feeling is better. April was a dry month in Oklahoma but physical conditions in New Mexico are good. There is general complaint, however, of a shortage of subsoil moisture. The wheat prospect is better than seemed possible early in the winter, but there has been some deterioration in the last few weeks. Conditions for the planting of spring crops have been favorable.

Bankers continue to report gratifying results from their cattle loans. Because of present prices they are, however, much less sanguine about new cattle loans. Where cattle are important there is considerable complaint from local banks of certain city banks establishing loan agencies in their communities and making full-value loans at low rates.

Personal loans were run into nearly everywhere. Many statements were to the effect that from 20 to 25 per cent of advances were automobile loans.

A good many instances were found of real estate loans made on a monthly payment basis. A 5 per cent loan is made to yield 9 or 10 per cent.

A bank with two million dollars of deposits reports that the income from service charges is \$1,000 a month. A banker in Nebraska told a representative of this bank that service charges accounted for 14 per cent of their income.

In certain sections complaint is heard of FDIC examiners who are brought in from other parts of the country and are not acquainted with local conditions. A banker in a well-known cattle feeding region cited the case of an exotic examiner who had great difficulty in realizing the value of a cornfed steer. Reported strikes and threats of strikes among WPA workers are also calling forth much ridicule from bankers.

In April this bank distributed to member banks a statement of operating ratios compiled from earning reports for the year 1938.

A good deal of evidence comes to this bank indicating that banks make very serious use of these operating studies.

DALLAS

The Texas "Panhandle"

Ranges are at present in better condition than they have enjoyed for the past ten years. Only a single good rain in May is needed to insure the production of a bumper wheat crop. Therefore, both farmers and ranchmen are looking forward to one of the most prosperous seasons the Panhandle has witnessed in many years.

Optimism over the favorable physical condition of the territory is somewhat tempered by misgivings as to the probable duration of the extremely high prices prevailing in the cattle markets. Bankers report an exceptionally strong demand for cattle loans, which is being stimulated by high cattle prices, an abundance of grass and wheat, and the understocked condition of ranges and pastures.

Business conditions in the Panhandle are not particularly good. The seven-year drouth has taken its toll. Prospects for an upturn in trade activity are bright, however, in view of the promising outlook for this year's sales of wheat and cattle.

Although the Panhandle banks are in a relatively isolated and sparsely settled section of our district, the vogue for branching out into new fields of credit to augment earnings depleted by the competition of Government-fostered credit agencies is steadily spreading throughout this section of Texas. Installment loans are being made in ever-increasing volume, not only on automobiles but on a wide variety of installment-financed goods, including even such items as furniture.

Southeast Texas

Business generally was found to be satisfactory, although slightly below the level of this time last year.

Only a few banks complained of the competition of the Production Credit Corporation, but most of them expressed the thought that the low rates being offered by various lending agencies, including the Production Credit Corporation and the Reconstruction Finance Corporation, were producing a psychology among all classes of borrowers resulting in demands for lower rates. The bankers are unanimously opposed to the establishment of Intermediate Credit Banks for the purpose of making working capital loans to industry. They maintain that such institutions are not needed as the banks are ready and willing to make any good loan available. A number of them were very critical of the national Government's activities in business, stating that its program should be in the process of curtailment rather than expansion.

It was the majority opinion among the bankers in the larger towns that annual meetings of our stockholders would not be of sufficient benefit to warrant resumption of such meetings. On the other hand, the majority of the country bankers favored a return to the practice of holding such meetings as they would be afforded the opportunity of meeting with the executive heads of the Reserve bank and of receiving benefits from the discussions of problems of mutual interest among bankers.

Of the seven nonmember banks visited, only two evidenced any interest in membership. One of the two expressed a preference for nationalization on the ground that it would furnish escape from dual supervision; the other indicated it intended to apply for membership as soon as it eliminated certain unsatisfactory assets inherited from a former administration.

SAN FRANCISCO

Coachella Valley

Conditions in the valley are considered fair. Prices

have been poor, but, as in other lines of business, good operators have been able to make a little money.

The winter tourist traffic has been disappointing. The winter season at Palm Springs was better than last year and was considered a success, in that there were more wealthy people domiciled there for the winter than has been the case in the last few years.

Imperial Valley

Conditions are considered fair, despite the low prices received for most agricultural products. However, growers of green peas have made money, and those raising flax and sugar beets should make a profit.

Dairying was formerly an important activity in this area. At one time there were about 800 dairies, which were far too many. Within the last year or so the number of dairymen has been reduced to around 350 to 400, many of the dairymen having gone into farming and particularly into new crops in the valley - flax and sugar beets.

Santa Barbara County

Santa Maria Valley

Retail merchants are experiencing a slump in sales and difficulty with collections. This may be attributed principally to the lower prices for agricultural commodities, as well as a cessation of oil drilling operations in the valley. In this connection it is reported that employees in the oil wells have decreased about 600 in number.

Lampon Valley

Retail merchants are experiencing a decline in sales and collections, which may be attributed not alone to the low prices for agricultural commodities, but also to a considerable reduction in the activities of the Johns-Manville plant at this point, which produces decomposed soil for use in filtration and insulation purposes.

It is estimated that a considerable acreage of sugar beets will be planted in the valley this year, replacing areas formerly seeded to mustard.

Santa Ynez Valley

Conditions in the valley are reported to be very good.

New inhabitants are moving into the area and bringing with them a reasonable amount of new capital.

Goleta Area

Retail merchants are doing a good volume of business, due to the stability of the oil producing industry in the area. New families are moving in and building activity has increased.

Hood River Valley, Oregon

The 1938 crop of apples has largely moved to market and apparently the season will be only slightly profitable on the average, altho there are the usual number of those margin producers who will lose money.

A record of production of apples and pears from 1927 to and including 1938 shows that the amount produced has varied greatly on apples, from 2,795,000 boxes in 1928 to a low of 649,000 boxes in 1929, with the 1938 production at 1,911,000 boxes. The whole period shows a tendency toward decrease of production of apples, but that reduction has been overcome by the increasing production of pears, which reached peak production of 1,113,000 boxes in 1937 and a low of 152,000 boxes in 1927, with the 1938 production 969,000 boxes.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

April - 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	20	4	24	1	<u>1/</u>	1	Broadcast
New York	130	41	171	13	3,570	2	<u>1/</u> 65
Philadelphia	40	20	60	6	1,800	1	<u>1/</u>
Cleveland	139	40	179	12	<u>1/</u> 1,735	1	200
Richmond	68	35	103	18	2,988	2	70
Atlanta	20	4	24	2	295	--	--
Chicago	75	48	123	2	681	3	552
St. Louis	63	131	194	4	<u>1/</u> 530	5	296
Minneapolis	41	98	139	8	807	5	231
Kansas City	59	86	145	8	1,405	2	253
Dallas	32	7	39	3	1,400	<u>2/2</u>	1,000
San Francisco	68	12	80	14	1,002	--	--

1/ Attendance at one not reported.2/ One radio broadcast