

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-494



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 27, 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 May, 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", written over a horizontal line.

L. P. Bethea,
Assistant Secretary.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

June 23, 1939

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 May. 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:

New York and Richmond offer interesting comment upon the persistent competition of banks for deposits despite the difficulty of finding a profitable employment for funds.

Cleveland and Chicago both report the active solicitation of prospective borrowers by banks, one banker having an employee who does nothing but canvass for loans from door to door.

Cleveland reports an active interest on the part of bankers in the Fourth District--particularly in southern Ohio--in the possible advantages of separating commercial, savings, and trust business so that they will not be performed by the same institution.

Bankers complain not only of bank examination policy, the Government's fiscal program, and competition by Governmental agencies, but also of one another's competitive practices; the practices particularly mentioned being those of paying too high a rate of interest on deposits, of cutting the rates borrowers are asked to pay, and of charging exchange on checks.

BOSTON

Thirty-six member banks and five nonmember banks, all located in the State of Vermont, were visited during May.

At most of the banks loans were in somewhat greater volume than a year ago, the increase being largely in mortgage and small personal loans. Rates range from 6 per cent downward, the lower rates applying almost entirely to well-collateraled loans and advances made to municipalities in anticipation of tax receipts, the latter class of loans bearing rates of from 1/2 per cent to 5 per cent. It was

noted that on the whole rates obtained on loans to the smaller municipalities are somewhat higher than in other sections of the District.

Banks throughout the State are paying 2 per cent for time money. It is the general opinion that the rate should be reduced to 1-1/2 per cent by concerted action on the part of the banks, and the whole subject is one which will be discussed at the June convention of the Bankers Association.

Developments under way in the State to be watched with interest are the growing demand for small urban and farm properties in the southwestern section, principally from New York State residents, the breeding of fancy beef cattle, and the experiment (now in its second year) in growing soy beans for cattle fodder.

No real complaints were directed at the Federal Reserve System or this bank by any of the bankers visited. The amount of work incident to the preparation of daily cash letters as required by the Federal Reserve banks is found burdensome by some member banks with the result that they clear all items through their correspondents; and one or two banks borrowing on Government securities go to their correspondents instead of to the Reserve bank because of our fifteen-day requirement and because of the correspondent's lower rate.

NEW YORK

Cayuga, Ontario, Oswego, Seneca, Wayne, and Yates Counties, New York State

Most banks have experienced no material improvement in the demand for credit although loans and discounts now aggregating \$27,704,000 show a small increase - 2 per cent - as compared with a year ago. This increase, however, is due principally to activity in granting personal loans, or increased purchases of commercial paper on the part of a few banks. Savings bank executives state that there is very little demand for new mortgage money, and mortgage portfolios of the seven institutions have decreased 3 per cent to a present total of \$20,868,000.

Such criticisms as were voiced by member bank officers were confined principally to Governmental policies and to the practices of the examining authorities. One executive, who is strongly opposed to Government spending and the unbalanced budget, stated that his bank carries no obligations of the United States in its portfolio.

The greater part of the area included in these six counties is devoted to agricultural pursuits, and bank executives, for the most part, appear to be quite concerned about farming conditions. In the absence of any milk marketing agreement, dairy farmers are selling their product at prices which scarcely cover the cost of production. Returns from all crops are said to have been poor last season - a condition which is reflected in the business of local merchants who are, in turn, complaining.

Genesee, Monroe, and Orleans Counties (Buffalo Branch Territory)

The Rochester savings banks are divided in their policies regarding the acceptance of accounts transferring from the commercial banks as a result of the rate differential. Two of these institutions will take whatever deposits are offered to them, while the other two will not accept such accounts. The president of one of these savings banks remarked that he believes in taking deposits when they are available, feeling that in the long run his bank will profit. This banker added further that the commercial banks are now "paying the piper" for having actively solicited accounts which in his opinion rightfully belonged in the savings banks.

Except in a few isolated cases, loan demand is reported to be light, total loans of commercial banks amounting to \$97,816,000. The savings banks report mortgage loans of \$76,612,000. A number of the bankers in the agricultural section complain rather bitterly of competition in loans through the Production Credit Association. This organization has lowered its rate to 4-1/2 per cent and aggressively solicits loans from the farmers. In some instances banks have decreased their rates to 5 per cent to meet this competition, and in other cases the bankers feel that in small communities it is difficult to have more than one loaning rate and that lowering their rates in special cases will necessitate similar action on all loans. The president of one country bank said that his institution cannot profitably make farmer loans at a rate lower than 6 per cent due to the loss hazard in loans of this character, and as a consequence he has lost some \$80,000 loans this spring to the Production Credit Association. A number of institutions have participated quite actively in Federal Housing Administration mortgages, either purchasing them or originating them in their particular communities. There appears to be quite a difference of opinion concerning the desirability of this type of investment, many of the bankers believing in these mortgages, and others feeling they are not a proper bank asset. The

trend toward personal loan departments continues, and several banks within the past few months have opened such departments. One Rochester bank has been particularly successful in this field, having built up a sizable volume of such loans with losses practically negligible. The president of this institution stated that in view of the very favorable record, the bank has decided to liberalize its loan policies and is now making unsecured personal loans with only one signature required. This banker further mentioned that he expects earnings from ordinary operations for the current year to compare favorably with 1929 figures, and attributes this to a reduction of interest rate paid on savings deposits, earnings from the personal loan department, service charges, and increased trust business. Other bankers likewise commented that their earnings have improved due to one or more of these reasons.

Bergen and Passaic Counties, New Jersey

The total of all loans held by the commercial banks in these two counties is \$88,300,000, of which approximately \$48,200,000 are loans on real estate. The making of insured mortgage loans by many of these banks has been one of the few outlets for sizable amounts of funds. Competition, however, is increasingly keen in this field as more and more of the banks decide to handle loans of this type. One of the Paterson institutions which recently started making these loans is now advertising a rate of 4-1/2 per cent. Bankers who pioneered in the granting of Federal Housing Administration Title II insured mortgages report that their experience with this type of loan has been very good so far. One of the larger institutions is carrying \$6,700,000 insured mortgages in its portfolio, all of which it originated. Loans to consumers are receiving increased attention from the bankers, particularly in the line of automobile financing. Banks which were first in this field usually charged a rate of 6 per cent but as competition increased, rates were reduced in some cases so that they now vary from 4 to 6 per cent. One of the large Bergen County banks recently advertised for loans at the 4 per cent rate, with the result that a few competitors felt obliged to meet the reduced rate.

Summary of Preferred Capital Issues

In the fourteen counties visited there are 213 commercial banks of which 137 have issued preferred stock, capital notes or debentures aggregating \$57,992,100 par value. Up to the present time seventeen have paid off their entire issues amounting to \$2,970,000, ninety have made partial redemptions aggregating \$8,390,210, and thirty have not retired any - leaving one hundred twenty banks with

a total still outstanding of \$26,631,890 par value, retirable at \$35,078,893, reflecting redemption premiums of \$8,447,003.

PHILADELPHIA

Industrial conditions in the area visited vary from fair to good. The smaller concerns are, in the main, operating at a satisfactory rate as are also some of the larger establishments.

Real estate activity is confined almost entirely to rentals and the sale of new homes or low priced residences of older construction selling in the \$5,000 price range. There does not appear to be a general revival of building in this area but several operations are either contemplated or already under way in some of the larger communities. These operations are being financed chiefly under the FHA. The facilities of the FHA are being utilized by many of the banks visited and a satisfactory experience to date is reported.

While FHA mortgages are becoming more extensively granted and purchased by district banks, several bankers state that they do not approve of 90 per cent mortgages and are doubtful as to the outcome of such financing.

The demand for credit is confined chiefly to personal and automobile loans or loans upon real estate, either FHA or otherwise, consequently most credit now being extended is upon an amortizing basis. The chief problems in liquidation are the older loans, many of which are predicated upon slow moving real estate.

Many favorable comments were made upon the report of earnings and expenses of member banks recently released by this bank. The bankers state that they find this of great value and look for it each year, which is evidenced by inquiries made to representatives just prior to the release of the figures.

The group clearing plan, which has been in operation in this district for years, also was the subject of considerable favorable comment during May. While we were aware that this method of clearance is highly regarded, comments recently have been unusually numerous.

With the reduction in the number of sorts required of banks forwarding checks to the Reserve bank for collection, the collection facilities of the Reserve bank are finding greater favor with district banks and there have been some additions to our list of clearing banks as a result. Some bankers, however, state that they do not wish to do any sorting and that they will not change from clearing through

their correspondents until a greater need for funds makes it expedient to do so.

CLEVELAND

In a previous report it was indicated that some banks through a vigorous campaign of solicitation had been able to increase loan totals. An unusually large number of banks visited during the past month have experienced a very satisfactory expansion of loan totals through such solicitation and through extensive advertising. On the other hand, occasional instances are noted where the position is taken that it is improper for banks to make inducements in the form of rate concessions, as a result of which other lending agencies secure what business is available. From one of the latter type of institution comes the suggestion that the Board by regulation fix minimum loan rates.

There is a growing sentiment in some parts of the district, particularly in southern Ohio, for a separation of commercial and savings banking. A former president of the Ohio Bankers Association discussed with a representative of this bank a bill he proposes to submit to divorce trust departments from banks. He is reported as being very enthusiastic about the bill, and stated that he had been encouraged by counsel for the American Bankers Association and leading trust men with whom he had discussed the measure. The bill he proposes provides that a separate bank be organized in which all the banks in the community have an interest.

The number of institutions engaging in personal loan activities continues to increase. In one city an aggressive bank has sought the cooperation of doctors in an effort to increase such loans. The bank writes a collection letter for doctors, on doctors' stationery, and on the same day sends a folder on personal loans in a bank envelope. So far the experience has been very satisfactory. Doctors have agreed (orally) to reimburse the bank for any losses.

In a number of the smaller communities in the central part of the State, in the immediate vicinity of Columbus, banks report that their funds are well loaned, and in some instances bonds have been sold in order to meet this loan demand. A substantial amount of new building is taking place in this area.

At an important industrial center in eastern Ohio the principal bank recently reduced rates on mortgage loans to 4 per cent, and loans for the purchase of new automobiles to 5 per cent.

These reductions have greatly stimulated the loan demand at this institution, but other banks in this and in adjacent counties are complaining bitterly of this "unfair" competition.

Low prices for agricultural products are having an effect on retail trade in agricultural communities. At certain points it is stated that conditions are worse than they have been at any time since 1930.

RICHMOND

Washington County, Maryland

The trend of both loans and deposits has been upward, with some exceptions, and not infrequently this is due to the development of personal income loans upon which a rate of 6 per cent is typical. This rate also prevails, with few exceptions, on ordinary business loans, but the volume of these is considered inadequate. A concession is usually made on mortgage loans, upon which the rate is generally 5 per cent.

The question of rates on loans is closely related to the equally pressing question of rates on time deposits, since banks which charge 6 per cent on loans often feel that they cannot, in justice to depositors, pay less than 2 or 2½ per cent on time deposits. The matter of service charges also becomes a factor, for banks often feel that they cannot pay low rates on deposits and at the same time adhere consistently to a schedule of service charges.

All of these problems are considered by individual bankers with reference to the competitive situation in their respective localities. Banks which have small aggregate time deposits are more willing to pay higher rates if, thereby, they can draw deposits away from a competitor, and they are equally unwilling to exact service charges. Most banks feel that they are growing in power and influence as long as deposits are expanding, though it is admitted that the problem of putting deposits to work is thus increased.

Farm credit facilities are said to be entirely adequate. Income from poultry and dairy operations provide many farmers with

funds for current operations, so that they seldom need to borrow from banks. There is a fairly general practice of holding wheat in storage on farms until there is some unusual need for cash. However, some orchardists resort to banks for loans during the spraying and harvesting seasons.

Northeastern West Virginia

Banks in this region appear to have an unusually friendly feeling for the Federal Reserve Bank of Richmond and for the System. Some of them have found the annual report of the Board of Governors very instructive and the schedule of operating ratios of member banks prepared by this bank quite helpful. The present examination procedure is considered to be satisfactory, but there is no enthusiasm for the proposed increase in FDIC coverage and there is unanimous opinion that the proposed regional intermediate credit banks are wholly unnecessary.

For the most part banks adhere to a straight 6 per cent rate on loans, but there is a growing awareness of the tendency of this rate to stimulate competition from Production Credit Associations, from the Farm Security Administration, from Federal Land Banks, from outside banks, and from private lenders, especially in the case of real estate mortgage loans. Where such competition appears, banks often consider it negligible and, rather than lower the lending rate, they frequently turn to personal income and installment loans at the old rate. Even so, there is a growing evidence of gradual readjustment downward of interest rates.

It seems apparent that most banks fix their rate on time deposits with reference to local conditions, the nature and extent of competition, and relations with other banks, and then attempt to make earning assets meet the burden of that rate. Thus, the rate on time money tends to become a fixed charge and a controlling factor in bank policy as a whole. Under such conditions there is little interest in Treasury issues and other high-grade investment and a tenacious adherence to a 6 per cent rate on loans. The development of service charges is increasingly favored as a means of achieving the reduction of the excessive rates paid on time deposits.

ATLANTAFlorida

During the month of May our representative visited six member banks and one nonmember bank located in the cities of Jacksonville, Tampa, Orlando and Plant City. The bankers in Tampa reported that business was quiet, and that although the population of Tampa was decreasing bank deposits were growing. The bankers reported satisfactory earnings in spite of the fact that it was hard to find the kind of loans they liked to make.

The officers of the member bank in Orlando stated that the tourist season had been a profitable one and that the population of the city was growing rapidly, due principally to the fact that a considerable number of winter visitors have become permanent residents. The fact that Florida has no inheritance tax also contributes to the increasing population of Orlando and other Florida cities.

Deposits of the banks in Jacksonville were reported increasing, with the deposits of one of the member banks larger now than at any time since the Florida "boom". The city of Jacksonville is growing rapidly. New industries are locating in Jacksonville constantly and the bankers are enthusiastic over the proposed location in Jacksonville by the Government of a large aviation training center. The city has had a residential building boom for the last year or so and there is still in progress a considerable amount of residential building, most of which is being financed by Governmental agencies.

Louisiana

An officer of one of the member banks visited stated that the very poor demand for loans at his institution was due in part to the fact that several individuals residing within the trade area were lending money to persons who ordinarily would borrow from his bank.

Bankers in this area reported that although deposits have shown slight increases, demand for agricultural loans is far below normal. This fact was attributed largely to Governmental lending to cane growers through production credit associations. A substantial part of the funds of all of the banks has been invested in securities, from which source a large percentage of their earnings is derived. A uniform, graduated scale of service charges adopted by the banks in this section about a year ago has proved very beneficial.

One bank visited has discontinued its savings department, while others continue to pay 2 per cent on savings. The average interest rate on loans in this area is 6 per cent.

Southwestern Mississippi

Banking activities in this section are considered satisfactory. Demand for both agricultural and commercial loans has been good and earnings are reported favorable. All the banks visited have a uniform schedule of service charges from which they derive substantial income.

Interest at the rate of 2 per cent is paid on savings accounts throughout the section. Average rate on agricultural loans is 8 per cent and from 5 to 6 per cent on commercial loans.

Western Central Mississippi

Some improvement has been noted in banking conditions in this section, especially in the area served by Yazoo City. The banker interviewed in this city stated that seasonal demand for agricultural loans had been good and that his bank's earnings were very satisfactory. Bankers located at Vicksburg and Canton, however, stated that their agricultural business had been considerably below normal this year. This condition was attributed to competition from Government lending agencies. One banker produced figures, taken from the records of the County Recorder, showing that loans made to farmers in Madison County, Mississippi, during 1939, through Government agencies, amounted to \$300,000, while combined loans made by the banks in the county for the same period aggregated approximately the same figure.

All bankers visited are faced with the problem of investment of idle funds. One banker stated that cattle loans were very desirable but that certain State legislation to protect the lender was necessary to make such loans more secure. Special efforts are being made by banks in this section to increase their earning power through personal loan departments and through financing sales of automobiles, household equipment, and farming machinery and equipment.

All banks in this section have adopted a uniform schedule of service charges; 2 per cent is paid on savings deposits and the average rate for loans is 6 per cent to 7 per cent.

CHICAGO

Calls were made on 121 member and 67 nonmember banks located largely in eastern Illinois, eastern Michigan, and eastern Wisconsin.

The trend toward lower interest rates for savings deposits continues. Banks located in Evanston, Wilmette, Winnetka, and other north shore towns, as well as several outlying banks in Chicago, will go on a one per cent basis on July 1. A number of other banks in and around Chicago are giving this matter consideration. No definite action has yet been taken by the larger down town banks.

Banks are still overburdened with excess money. However, there are indications of an increasing aggressiveness on the part of many banks to find or create loans. One banker reported that he had one employee who did nothing but canvass his community from door to door seeking loans on real estate and anything else he could find. Another reported he was canvassing his farming community. One stated that he was meeting all competition with respect to rates and was letting no loans from his community go to Chicago or other centers. Numerous banks are adding Personal Loan, Installment Loan, or F.H.A. Loan departments. While the individual banks do not have installment loans in large volume, the aggregate runs into sizable figures and, according to two of the large finance companies, the activity in this direction is affecting their totals. Banks are also increasing the amount of their real estate loans, reports showing that these constitute from 30 to 75 per cent of total loans. Banks located in the larger cities of the district have increased their mortgages on city real estate substantially, and due to this activity, the building and loan associations have become more aggressive, making loans at reduced rates of interest and on extremely liberal appraisals of the property.

Some criticisms were heard with respect to the following: Treasury policy in asking premiums on new offerings; solicitation of loans by Production Credit Corporation; competition by the Government with United States Savings Bonds, Postal Savings, and particularly with Federal Savings and Loan associations; State bank competition with respect to branches; and the attitude of examiners of the F. D. I. C. and National Bank Department.

During the month, one nonmember State bank converted to a National bank, and one National bank gave up its charter and became a nonmember State bank, the reason given for the latter change being that it wished to establish a branch. A large nonmember State bank which has been considering membership for several months recently established a branch office in a neighboring town, which makes the bank ineligible for membership.

ST. LOUIS

Western Tennessee

Sections of Western Tennessee visited in May are principally

agricultural, with a broad range of commodities being produced. There is some industrial activity, mainly small factories owned locally or branches of large companies located in St. Louis, Memphis, and other cities. There are a number of canning plants which take the products of counties in which they are located. Some of these are independent, but most of them are controlled by the big packing companies. There are a few garment factories, and at Dyersburg is located a cotton textile establishment with pay roll of about \$8,000 per week.

Due to diversification and Government payments, farmers are fairly prosperous, and business in the small towns is described as fair to good, with prospects for the remainder of the season favorable. Some building is in progress, mainly small homes and public works, aided by Government finances.

In a majority of the communities visited demand for credit was reported fair to good. Small banks have been able to place all their funds and in some instances have borrowed from city correspondents to meet local requirements. The discount rate on notes ranges from 6 to 10 per cent, the minor figure of the range applying to the larger loans. On savings accounts 2 to 2-1/2 per cent is allowed. The matter of remittance at par was discussed with numerous country bankers, but in the main their reaction was not favorable, as much reliance is still placed on exchange on checks to bolster earnings. Some hold a goodly volume of CCC loans, and are apparently pleased with this type of investment. There seems to be a general ambition to retire preferred stock.

Northwest Arkansas

The part of Arkansas covered by May visits presents considerable variety, both as to topography and activities by which the inhabitants earn a living. Much of the area is mountainous and sparsely populated, but possesses great natural resources, such as timber, minerals, etc. The chief industries are agriculture, coal mining, livestock raising, dairying, lumbering and a few scattered factories. The lumber industry is fairly important, and there is growing timber sufficient to sustain it for some years to come. Coal of good quality is produced, but in recent years the market for output has been progressively poor, so that local consumption is mainly relied upon for its disposal. Many miners have turned to agriculture for a living, and with aid of the Rehabilitation Agency, have been able to acquire land, machinery and livestock. Near Ozark the Agency has approximately 750 clients. Building activity is limited. Conditions generally vary quite markedly between communities, some being enterprising and prosperous, while others are quite the opposite.

Demand for credit is spotty, and varies with the several towns. On the whole, however, funds of the banks are reasonably well employed. Many country banks cling to check exchange charges to eke out profits. As in other rural areas of this district, bankers complain about competition of Government agencies on loans and of Post Offices on savings accounts. Some bankers do not take interest bearing accounts, and those which do pay from 1-1/2 to 2-1/2 per cent. Discount rates on loans range from 6 to 10 per cent, depending on the size and general character of the loan and dependability of the borrower. A very considerable portion of loans in many communities is based on chattel mortgages, farm machinery, crops, etc.

MINNEAPOLIS

Western South Dakota

The territory visited included all of the State of South Dakota west of the Missouri River and Chamberlain, Kimball, Platte and Geddes, which towns are located in the south central part of the State just east of the river.

Forty-three banking offices were visited of which thirteen were member banks, nineteen nonmember banks, ten offices of member banks and one office of a nonmember bank.

The bankers were very friendly and voiced their approval of our periodic visits. The member banks expressed their satisfaction with the services performed by our bank and stated that their membership in the System is a material benefit to them. More than one banker stated that the rediscount privileges with the Federal made it possible for him to employ his funds profitably, knowing in time of need he may obtain funds readily, a privilege which he rated most important.

Apparently our Member Bank Conference in March went over again in a big way. The bankers spoke of it often and seem to be all set for another one.

The demand for bank loans is spotted. In many instances the demand is very good, while in many other instances there is practically no demand. In the smaller towns located out on the ranges, practically all of the loans are on sheep and cattle while in the larger towns and cities the loans are well diversified. One bank located in a town of 1200 population (a branch office) has loans totaling \$100,000 in excess of its deposits of \$400,000. This office

loans on everything and anything and claims to be making very good profits. It must be a very active office as it has 12 employees.

No bank reported a deficit in earnings, while a number spoke of very good earnings. A State member bank with a \$25,000 capital engaged principally in livestock loans paid a 40 per cent dividend last year. The largest banks in the Black Hills also reported satisfactory earnings.

The going rate on rancher paper is 8 per cent, with very few exceptions. A successful banker with 35 years of experience in livestock loans claims that the risk incurred in such loans justifies an 8 per cent rate. In the smaller centers 8 per cent is charged on all types of loans, regardless of size or security. In the larger banks the rates vary, but on the whole money is not cheap in this part of South Dakota.

Many farmers and ranchers are taking advantage of the AAA program by signing up under the soil conservation program and insuring their crops. Banks are making loans secured by assignments of these benefits.

Independent banks complain of what they feel is unfair competition by group banks. It was stated that where group banks have competition interest rates on loans are reduced below that of the competition and a higher rate of interest is paid on time deposits, while the reverse is true where no competition exists.

Southeastern Minnesota and Wisconsin

Loan demand varied from extreme dullness in the communities along the Mississippi River to a rather active demand in the territory south of Rochester. One bank reported such a good loan demand that it has disposed of all but \$6,000 of its bonds.

Bankers were generally apprehensive about the future of bond prices. New high prices had been reached for several days before the visit and several banks stated that they were shortening maturities or disposing of all of their long term bonds. Interest on time deposits at all Winona banks will be uniform at 1-1/2 per cent after July 1, next. Among the rural banks in southeastern Minnesota, there is a rather bitter feeling because some banks continue to pay 2-1/2 per cent, and are thus furnishing difficult competition for the remaining banks which pay 2 per cent.

A nonmember banker in Wisconsin criticized all talks and interviews by Federal Reserve officials as being too general, for he said that the country bank needs specific advice applied to its special problems.

The Cashier of a small national bank would like to have the Federal Reserve bank establish a service of advising all member banks as to the dates and issues of bond calls. Another national banker wondered whether the Federal Reserve banks will hold Government securities at par in an emergency. A nonmember banker exhibited a marked copy of our Monthly Business Review and stated that he made continual use of it in talking with his customers.

Southeastern North Dakota

Virtually all the farmers in this district feel favorably toward the Agricultural Adjustment Act; in fact, such benefit payments have been a Godsend to them. Very few allotment checks have been received to date, but many bankers have made advances secured by assignments of such checks. Their experience with these loans has been excellent.

All the bankers in this district are heartily in accord with the Rural Rehabilitation Program of the Government, particularly with respect to acreage taken out of cultivation, which will be fenced and returned to pasture, when it will be leased to stockmen for pasture purposes only.

KANSAS CITY

During May the farm situation in most parts of the District improved somewhat and this has made for a more cheerful feeling. Good rains followed an unusually dry April and stopped the serious deterioration in the winter wheat belt. In many sections wheat was past help and the crop will be a short one. In other places wheat is filling exceptionally well and the prospect is quite favorable. Hot winds have caused trouble in the beet fields and poor germination has necessitated considerable replanting. Ranges in Colorado and Wyoming have suffered from hot weather and lack of moisture, and the farm situation in Nebraska is not good. With these exceptions, surface moisture is generally adequate and conditions have been favorable for the planting of spring crops. However, there is generally a great deficiency of subsoil moisture.

Livestock prices have been good and wool is selling for 7 or 8 cents a pound more than at this time last year. Dairy herds and poultry products also bring in some money.

It is a general opinion that the better farmers do not borrow as freely as formerly, and are content to operate on a smaller scale.

One reason for the increase in currency circulation that has not been fully appreciated, in the opinion of many bankers, is the cashing of WPA checks. Such checks are put afloat in huge quantities and almost invariably the payment is made in currency.

Bankers generally regard Government bond prices as far too high but at the same time they hesitate to sell. Banks in small places do little or no trading in bonds.

Much criticism is found of FDIC examinations. Country bankers in Missouri are especially outspoken and resentful about these examinations. The complaint is that they are exceedingly technical and that the examiners are young men, who, bankers think, are political appointees and generally unfamiliar with local conditions because they are shifted around too much. A number of these bankers said that one advantage of joining the System would be that they would get away from the FDIC examinations. At the same time, there are no complaints against deposit insurance; in fact, the feeling is favorable to it.

More reports were heard of profitable livestock feeding. While past experience has been highly favorable, there seems to be great hesitation in repurchasing cattle because it is believed that present prices are too high. There is a rather general expectation that cattle prices will before long be adversely affected by appreciably larger cattle marketings and present low hog prices. From all reports, a large number of farmers are cooperating with the Government program. It appears that in many communities 80 or 90 per cent of the farmers are cooperating, although there are exceptions to this.

A number of cases were found where banks on the par list complained of non-par banks. This attitude is quite unusual and apparently these banks have had unfortunate experiences that make them firm in the opinion that all banks should be required to be on the par list. Bankers almost unanimously oppose the abolition of the Comptroller's office. Small bankers often express the opinion that the Government is trying to force small banks out of business. They think this is being done by requiring a top-heavy capital structure in order to obtain deposit insurance and by pressure on banks to merge. Many believe that Government competition has the same objective. The prevailing opinion is that the FSA is making many poorly secured loans to a very poor class of people.

DALLAS

North Texas

Cotton, wheat, oats and corn are the principal sources of income in the "black land" belt of North Texas visited by our representatives in May. Agricultural income in these counties was reduced last year by the sharp curtailment of the cotton acreage, although the loss was partially offset by the distribution of Government subsidies to the farmers.

The winter wheat and oat crops responded well to favorable growing conditions, with heavy yields reported throughout the visited area, although spring oats were damaged by drouth and the yield is short. Wheat is selling at 90 cents per bushel, while oats are quoted at 28 to 30 cents. Threshing operations are now well under way. Wheat harvestings are averaging about 20 bushels per acre and the oat yield will be 40 to 50 bushels. Cotton is in fine condition and an excellent crop is in prospect.

Banks in this area report a steady increase in diversification of agricultural production programs, which seems to be the only permanent gain resulting to the producers from the Government's farm program.

Few complaints were heard in regard to the competition of Federal lending agencies. A majority of the bankers in this section expressed opposition to the provisions of the Brown Bill looking to the concentration of bank examination functions in the FDIC, although some of them expressed themselves as being in favor of the measure if it would result in lowering the costs of examinations.

Deposits generally are at a lower level than at the corresponding period in 1938, but banks are gradually increasing the outlets for their loanable funds, and are looking forward to a fairly satisfactory showing in the matter of earnings for the current year.

SAN FRANCISCO

Eastern Washington

Banks visited during May were, for the most part, located in the wheat sections of eastern Washington, and at that time growing crops were showing the effects of a drought which commenced about March 15. For this season of the year, the prolonged dry, hot spell had set an all-time record for Washington, and while light rains fell toward the end of May, considerable damage to crops had already

occurred. It was too early, however, to estimate the extent of the damage, and the bankers in this section did not seem to be particularly alarmed over the situation. It was apparent that the growth of both spring and winter wheat had been retarded, which will undoubtedly result in lighter yields. It was reported that the acreage of winter wheat had been reduced by 5 per cent under last year under the Government allotment plan.

The drought also had a serious effect on pasturage for cattle and sheep and operators were finding it necessary to move their livestock to higher ranges at an earlier date than usual. The lamb crop was satisfactory this year and prices were reported to have been well maintained.

The bankers located in the Colville Valley, which is a diversified agricultural and dairying country north of Spokane, reported conditions in that locality to be in a very satisfactory condition.

It was too early in the year to obtain much information regarding the fruit situation in and around Wenatchee. It was very noticeable, however, that many acres of apple trees have been torn up and are being removed. It was estimated that approximately 1600 acres of apple trees had been thus removed from production this year, either because of blight or to clear the land for the production of other crops.

Southern Oregon

The long drought this spring caused many farmers who planted their seed in dry earth to worry considerably because rain was not sufficient to sprout the seed. Although there are many irrigated acres in southern Oregon which the drought does not affect, the largest proportion of farming area is dry farming beyond the reaches of irrigation canals. Therefore, the feeling of uncertainty is widespread regarding the drought this spring.

Northern Idaho

Prospects are good for wheat production this year in northern Idaho. The experiment of a Government agency which is furnishing resettlement for 34 families from southern Idaho in a dyked area along the Kootenai River is being watched with wide interest by farmers and citizens of the adjacent towns. Prospects are for the usual bountiful crops in the dyked land district.

Lumbering is not very active, and production is on quite a limited scale.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

May - 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	43	6	49	2	<u>1/</u>	1	70
New York	110	75	185	10	3,432	2	687
Philadelphia	62	14	76	6	2,268	1	35
Cleveland	127	46	173	16	3,682	<u>1/</u>	<u>1/</u>
Richmond	37	24	61	9	2,430	2	80
Atlanta	27	11	38	3	1,075	--	--
Chicago	121	67	188	20	4,724	1	100
St. Louis	37	96	133	10	4,256	5	1,020
Minneapolis	163	195	358	9	1,285	7	1,137
Kansas City	48	63	111	14	<u>2/</u> 4,629	4	395
Dallas	28	1	29	2	1,600	--	--
San Francisco	47	9	56	21	2,866	5	215

1/ Not stated.2/ Attendance not reported for one meeting.