BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 4, 1939.

CONFIDENTIAL

Dear Sir:

For the confidential information of your bank pending publication of the Annual Report of the Board of Governors of the Federal Reserve System, there is inclosed with this letter a copy of the recommendations of the Federal Advisory Council to the Board of Governors of the Federal Reserve System during the year 1938.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

RECOMMENDATION OF THE FEDERAL ADVISORY COUNCIL TO THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

May 17, 1938.

TOPIC: Unification of Bank Examinations.

RECOMMENDATION: The Federal Advisory Council has given careful consideration to the views of the Board of Governors of the Federal Reserve System on the subject of the classification of loans in reports of bank examiners and the treatment of investment portfolios in such reports.

It is the sense of the Council that the general plan as to the classification of loans which is now followed should be continued; that the heading "slow" should be altered, but that in Column 1 there should be brought together loans not presently considered doubtful or losses, but of a type which a bank would not and should not currently make, and that the total of such loans should be brought together in the Recapitulation Sheet. "Doubtful" and "Loss" columns should be continued as at present.

The Council also believes that the entire investment portfolio of all banks should be listed, priced, and totaled and that this information is necessary if the directors of banks generally are to have an adequate picture of the banks' condition. This is particularly true since at the present time the investment portfolio of the average bank represents a large percentage of its total assets.

The Council also feels that the difference between market value and carrying value in the case of all defaulted bonds, stocks, and non-defaulted bonds of low grade should be set up as loss or doubtful. Unless the market value of the total investment portfolio is in excess of carrying value, the bank should be required either to set up adequate reserves to cover depreciation on such items, or to charge it off.

The Council does not believe that market depreciation in securities of high grade should be set up as "loss" or "doubtful" by the examiners. It does believe, however, that where such market depreciation exists, that unless the total market value of the investment portfolio is in excess of its carrying value, the examiners should use their influence to have the bank set up reserves sufficient to bring the carrying value of the investment portfolio down to at least market value. The bank should be given amply reasonable time to create such reserves.

The Council believes that the Comptroller's regulations regarding marketability and character of investment securities which a bank can purchase should be liberalized and that all reference to classification by manuals should be omitted therefrom.

The Council would further favor an amendment of the law so as to remove the requirement of marketability from investment securities which a bank could purchase. The Council believes that the examiners could and should see that banks in making investments do not acquire an undue percentage of non-marketable investments in relation to their total assets and capital funds.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

November 29, 1938.

TOPIC No. 1. Services to Member Banks.

RECOMMENDATION: In answer to a request made by the Board of Governors of the Federal Reserve System at its meeting with the Federal Advisory Council on February 15, 1938, the Federal Advisory Council, under date of May 17, 1938, presented a report on "How Can the Federal Reserve System Increase the Value or Scope of its Services to Member Banks in Practicable or Desirable Ways?" The survey in question was a compilation based on material furnished by the member banks of the Federal Reserve System.

Subsequently, the Secretary of the Board of Governors in a letter, dated August 3, 1938, requested the Council to state its own views in respect to the problems discussed in the report of May 17, 1938. In answer to this inquiry, the Council submits the following statement.

The Federal Advisory Council has divided the subject under discussion into two parts:

(a) Subjects dealing with the mechanical services of the Federal Reserve System, and

(b) Policies which affect the member banks.

As regards mechanical services, the Council has the following suggestions to make:

(1) It would seem desirable to the Council that the closing hour of each Federal Reserve Bank be extended in accordance with the need of each district.

(2) The Council suggests the elimination of the present requirement of the sorting and distribution of items offered for credit.

(3) It would seem desirable to expand the use of the air mail.

(4) It would be helpful if the return of unpaid items take place more quickly than at present.

In respect to more general policies, the Council offers the following suggestions:

(1) That the Board be requested to continue its efforts to bring about greater uniformity in examinations and in the forms of the reports required.

(2) That the Federal Reserve Banks be allowed to exercise more autonomy in their respective districts.

(3) That the Board encourage and foster more frequent contacts on the part of the officials of regional banks with member banks and to that end stockholders' meetings be held in each Federal Reserve district. The Council does not believe it necessary that the arrangements for such meetings be the same in each district.

(4) That the Board of Governors attempt classification and simplification of the rules and regulations issued by it.

TOPIC No. 2. Assignment of Claims on the United States.

RECOMMENDATION: The Federal Advisory Council requests the Board of Governors of the Federal Reserve System to recommend to the proper authorities an amendment to that part of section 3477 of the Revised Statutes of the United States which is Title 31 U.S.C.A., Sec. 203, which makes null and void all transfers and assignments of any claims on the United States. The amendment should permit the assignment of claims where legitimate credit has been extended, excepting in those cases where claims arise in consequence of torts, tax refunds, or the like.

R-379

Press Statement

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

For Immediate
Release

January 5, 1939

Preliminary figures received by the Board of Governors from the Federal Reserve banks indicate that current earnings of the Federal Reserve banks during 1938 amounted to $36,261,000, or $4,972,000 less than in 1937, while current expenses were $28,912,000, or $111,000 more than the previous year. Current net earnings for 1938 were $7,350,000 as compared with $12,433,000 in 1937.

Additions to current net earnings amounted to $9,833,000 and consisted chiefly of profits realized on the sale of United States Government securities. Deductions from current net earnings of $7,601,000 include prior service contributions to the Retirement System and special charge-offs and additions to reserves. Making these additions to and deductions from current net earnings leaves net earnings for the year available for dividends, surplus, etc., in the amount of $9,582,000, as compared with $10,801,000 for 1937. The net earnings for 1938 were distributed as follows: Dividends to member banks - $8,019,000; payments to Treasury of the United States under provisions of Section 13b of the Federal Reserve Act relating to industrial advances - $120,000; net additions to surplus accounts - $1,443,000.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 6, 1939
R-380

Dear Sir:

Referring to the Board's letter R-164 of January 13, 1938, there are inclosed 25 copies of the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, as revised to include changes reported to the Board through December 31, 1938.

There is also inclosed, for your information, a statement showing banks which were included in the corresponding list dated December 31, 1937 and which have changed their names or are no longer in operation as nonmember banks.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

LIST OF NONMEMBER BANKS WHICH HAVE IN FORCE AGREEMENTS FILED WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM PURSUANT TO THE PROVISIONS OF SECTION 8(a) OF THE SECURITIES EXCHANGE ACT OF 1934

(Does not contain names of banks which are no longer in operation as nonmember banks. If name of bank has been changed since the agreement was filed, only the current name is listed)

Nonmember Banks with Principal Places of Business in the United States

California

Anahein	The Southern County Bank
Oakland	Central Bank
Patterson	Commercial Bank
San Diego	San Diego Trust & Savings Bank
San Francisco	Bank of Montreal (San Francisco)
" "	The Canadian Bank of Commerce (California)
Stockton	Stockton Savings and Loan Bank

Connecticut

Bridgeport	The West Side Bank
Darien	The Home Bank and Trust Company of Darien
Hartford	The Hartford-Connecticut Trust Company
"	The Park Street Trust Company
New Haven	The Community Bank and Trust Company
Stanford	The Fidelity Title & Trust Company

Delaware

Dover	Farmers' Bank of the State of Delaware
Wilmington	Delaware Trust Company

Idaho

Lewiston	American Bank & Trust Company
Pocatello	Idaho Bank and Trust Co.

Illinois

Chicago	Banco di Napoli Trust Company of Chicago
Oak Park	Prairie State Bank

Indiana

English	English State Bank
Jeffersonville	Citizens Trust Company
"	The Clark County State Bank
West College Corner (P.O.College Corner,Ohio)	The Farmers State Bank of West College Corner, Indiana

Iowa

Waterloo	The Waterloo Savings Bank

Kentucky	
Beaver Dam	The Beaver Dam Deposit Bank
Brandenburg	Farmers Deposit Bank
Campbellsburg	United Farmers Bank
Carrollton	Kentucky State Bank
Cave City	The H. Y. Davis State Bank
Dayton	State Bank
Gravel Switch	Peoples Bank
Hardinsburg	Farmers Bank
Harrodsburg	State Bank & Trust Co.
Hawesville	Hawesville Deposit Bank
Hopkinsville	First- City Bank & Trust Company
LaGrange	First State Bank
Magnolia	Bank of Magnolia
Monterey	The First State Bank
Munfordville	Hart County Deposit Bank
New Hope	The Peoples Bank
North Pleasureville	The Central Bank
Owingsville	Owingsville Banking Company
Pineville	First State Bank
Rocky Hill	Bank of Rocky Hill
Sadieville	Farmers-Deposit Bank of Sadieville
Sharpsburg	Citizens Bank
Shelbyville	Bank of Shelbyville
"	Citizens Bank
"	The Farmers and Traders Bank
Springfield	Springfield State Bank
Taylorsville	Peoples Bank
Upton	The Davis Banking Company
Maine	
Rockland	Knox County Trust Company
Maryland	
Baltimore	The Equitable Trust Company
"	Mercantile Trust Company of Baltimore
Massachusetts	
Boston	Stabile Bank and Trust Company
Clinton	Clinton Trust Company
Lawrence	Arlington Trust Company
Lynn	Essex Trust Company
North Adams	North Adams Trust Company
Worcester	Guaranty Bank & Trust Co.
Michigan	
Detroit	Commonwealth Bank
Hudson	Hudson State Savings Bank
Missouri	
Kansas City	Mercantile Home Bank & Trust Company
St. Louis	Mutual Bank and Trust Company

New Jersey

Asbury Park	Asbury Park and Ocean Grove Bank
Atlantic City	Guarantee Bank and Trust Company
Chatham	The Chatham Trust Company
Guttenberg	Guttenberg Bank and Trust Co.
Hammonton	Peoples Bank and Trust Company
Jersey City	Bessemer Trust Company
" "	The Trust Company of New Jersey
North Bergen	Woodcliff Trust Company
Trenton	The Trenton Banking Company
"	Trenton Trust Company
Union City	Hudson Trust Company
Woodbury	Woodbury Trust Company

New York

Albion	Marine Midland Trust Company of Albion
Auburn	Auburn Trust Company
"	Wm. H. Seward & Co.
Berlin	Taconic Valley Bank
Brooklyn (New York City)	Citizens Bank of Brooklyn
"	Kings County Trust Company
Clarence	Bank of Clarence
Cortland	The Marine Midland Trust Company of Cortland
Forest Hills(New York City)	Boulevard Bank
Hudson	Hudson River Trust Company
Jamestown	Union Trust Company of Jamestown, N. Y.
Kenmore	State Bank of Kenmore
Medina	Medina Trust Company
Newburgh	The Columbus Trust Company
New York City	Banca Commerciale Italiana Trust Company
"	The Bank of Athens Trust Company
"	Bronx County Trust Company
"	Brown Brothers Harriman & Co.
"	Empire Trust Company
"	Fiduciary Trust Company of New York
"	Heidelbach, Ickelheimer & Co.
"	Laidlaw & Company
"	Savings Banks Trust Company
"	Title Guarantee and Trust Company
"	Underwriters Trust Company
North Tonawanda	State Trust Company of North Tonawanda
Oyster Bay	Oyster Bay Trust Company
Randolph	State Bank of Randolph
Riverhead, L. I.	Long Island State Bank & Trust Company

New York (Continued)	
Rochester	Genesee Valley Trust Co.
"	Rochester Trust & Safe Deposit Company
"	Security Trust Company of Rochester
"	Union Trust Company of Rochester
Tonawanda	The First Trust Company of Tonawanda
Troy	The Troy Trust Company
Ohio	
Lisbon	The Firestone Bank
Milledgeville	The Milledgeville Bank
Ottoville	The Ottoville Bank Company
Sandusky	The Citizens Banking Company
Sugarcreek	Citizens Bank
Warren	The Union Savings & Trust Company
Youngstown	The City Trust & Savings Bank
Pennsylvania	
Abington	Abington Bank & Trust Company
Altoona	The Altoona Trust Company
Philadelphia	Banca Commerciale Italiana Trust Company
"	Land Title Bank and Trust Company
"	Liberty Title and Trust Company
"	Mitten Bank and Trust Company
"	Northern Trust Company
"	North Philadelphia Trust Company
"	The Real Estate Trust Company of Philadelphia
"	Wyoming Bank and Trust Company
Pittsburgh	The Arsenal Bank
Pottsville	Safe Deposit Bank of Pottsville
Prospect Park	Prospect Park State Bank
Rankin	The Rankin Bank
Tennessee	
Covington	Tipton County Farmers Union Bank
Paris	Commercial Bank & Trust Co.
Texas	
Houston	Guardian Trust Company of Houston
"	Houston Land & Trust Company
Utah	
Salt Lake City	First Security Trust Company
Vermont	
Barton	The Barton Savings Bank and Trust Company
Bellows Falls	Bellows Falls Trust Company
Brattleboro	Brattleboro Trust Co.
Wisconsin	
Cudahy	Cudahy State Bank
Marshfield	Central State Bank

Nonmember Banks with Principal Places of Business in Territories, Insular Possessions, or Foreign Countries

Canada	
Montreal	Bank of Montreal (including Agencies at New York City, Chicago, and San Francisco)
"	The Royal Bank of Canada (including Agency at New York City)
Toronto	The Bank of Nova Scotia (including Agencies at New York City, Boston, and Chicago)
"	The Canadian Bank of Commerce (including Agencies at New York City, Portland, Ore., San Francisco, and Seattle)
"	The Dominion Bank (including Agency at New York City)
England	
London	Banque Belge pour l'Etranger (Overseas) Limited (including Agency at New York City)
Hawaii	
Honolulu	Bank of Hawaii
"	Bishop National Bank of Hawaii at Honolulu
Italy	
Milan	Banca Commerciale Italiana (including Agency at New York City)

December 31, 1938

R-380a

BANKS INCLUDED IN THE DECEMBER 31, 1937 LIST (R-164a) OF BANKS WHICH HAD IN FORCE AGREEMENTS WITH THE BOARD PURSUANT TO THE PROVISIONS OF SECTION 8(a) OF THE SECURITIES EXCHANGE ACT OF 1934, BUT WHICH ARE NO LONGER IN OPERATION AS NONMEMBER BANKS.

New Jersey	
Atlantic City	Guarantee Trust Company (Succeeded by Guarantee Bank and Trust Company on May 2, 1938)
Clayton	Clayton Title and Trust Company (Placed in voluntary liquidation on August 19, 1938)
New York	
New York	Huth & Co. (Placed in voluntary liquidation on September 8, 1938)

BANKS INCLUDED IN THE DECEMBER 31, 1937 LIST (R-164a) OF BANKS WHICH HAD IN FORCE AGREEMENTS WITH THE BOARD PURSUANT TO THE PROVISIONS OF SECTION 8(a) OF THE SECURITIES EXCHANGE ACT OF 1934, BUT WHICH HAVE SINCE CHANGED THEIR NAMES.

Michigan	
Detroit	Commonwealth-Commercial State Bank (Name changed as of January 27, 1938 to "Commonwealth Bank")
Hudson	Hudson State Bank (This bank was added to the December 31, 1937 list by letter R-180 of February 4, 1938; on February 9, 1938 it changed its name to "Hudson State Savings Bank")

December 31, 1938.

R-380b

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 7, 1939.

Dear Sir:

There are being sent to you today under separate cover copies of the radio script that has been prepared at the request of the National Emergency Council. Copies of an earlier draft were sent to all Federal Reserve banks for criticism. The script was revised in the light of many helpful suggestions that were received.

Copies of the script are today being released to the National Emergency Council in Washington, and that agency will distribute copies to its local representatives throughout the country, who will solicit your cooperation and make all arrangements for presenting the program.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 9, 1939.

Dear Sir:

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

NUBCYM - Treasury Bills to be dated January 11, 1939, and to mature April 12, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-383

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1939

Dear Sir:

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

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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

Federal Reserve Notes, Series 1934.

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

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-384

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 1939

Dear Sir:

Referring to our letter R-375, of December 30, 1938, there are being forwarded to you under separate cover copies of Form E, Functional Expense Report, revised to conform to the instructions in the revised pages of the Manual. An additional copy is inclosed for your information. It will be noted that pages 1, 2, 6, 7, 17, 18, 19, 28 and 29 have been revised, that a new page, numbered 22a, has been provided and that page 30 has been eliminated. A supply of the revised pages is also being sent you for substitution in the sets of the forms now in your possession.

As requested in our letter R-375, reports for the last half of 1938 should be furnished on the revised Form E.

Very truly yours,

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

Inclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-385

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1939.

Dear Sir:

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

NUBDAL - Treasury Bills to be dated January 18, 1939, and to mature April 19, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-386

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

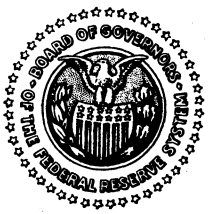
For immediate release January 16, 1939

STATEMENT FOR THE PRESS BY CHAIRMAN ECCLES:

"I am glad that Senator Byrd has made public his letter and intends to speak on the radio and in the Senate on this all-important issue. It is beset by violent controversy and widespread misunderstanding. It needs the fullest public discussion, especially at this hour.

"Therefore, I particularly welcome the Senator's contribution, the more so because it is evident from a reading of what he has had to say so far that he is trying to apply the economics of pioneer days or of a world at peace and operating on an international gold standard to the drastically changed conditions of the present disordered situation throughout the world.

"I shall take advantage of the first opportunity to respond to his latest statement both in the press and over the radio."



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 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 December, 1938, in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

January 13, 1939

To The Board of Governors

Subject: Summary of Bank Relations Reports.

From Mr. Hammond, Division of Bank Operations

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

The reports continue to reflect the concern of member banks with the problem of profitable operations. There is considerable comment upon the activities of banks in the field of mortgage loans, personal loans, etc. Several of the reserve banks speak of the tendency of member banks to reduce the interest rates charged customers, but Philadelphia speaks of two banks that have found that lowering their rate to 5% did not produce enough business to warrant the reduction and contemplate returning to 6%. In general member banks express dissatisfaction with other than government and municipal bonds, but New York reports that one member bank visited holds no government obligations at all and that several other banks which are also clients of the same investment counsel hold a very small volume of governments.

New York and Chicago report numerous complaints from small banks against the allotment to them of smaller amounts of the recent issue of governments than they subscribed to.

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

BOSTON

Boston made only two bank visits in December and submitted no detailed report thereon.

NEW YORK

Albany, Fulton, Hamilton, Montgomery, Rensselaer, Schenectady, and Schoharie Counties

Loans and discounts aggregating $88,200,000 show a net decrease of $5,600,000 since last June, due largely to the maturing of

purchased commercial paper. Many of the bankers are trying to stimulate a loan demand by advertising in the newspapers, or by reducing the rate of interest charged. One Albany bank with collateral loans totaling about $6,000,000 recently reduced its rates from 4 and 4½ per cent to 3 per cent, and this action was subsequently followed by similar rate reductions on the part of other banking institutions in the cities of Albany, Schenectady, and Troy. Eighteen banks now have an aggregate of $1,900,000 in personal loans. Fourteen institutions have placed a total of $500,000 in home repair loans under the new provisions of Title I of the National Housing Act. Seventeen banks now hold about $4,300,000 in Federal Housing Title II mortgages, and one institution has granted $1,880,000 Title II mortgages and has sold $1,400,000 to other commercial banks in this area.

Since early last fall, business conditions in this section have shown a general improvement, attributable in some degree to the settlement of various strikes which permitted the reopening of a large carpet mill and several glove manufacturing plants and tanneries. Bankers report that unit sales of department and other retail stores have been heavier this Christmas season than last year, but that the dollar volume appears to be smaller due to the lower prices received per unit.

Broome, Chemung, Chenango, Cortland, Schuyler, Steuben, Tioga, and Tompkins Counties

Security portfolios of the commercial banks aggregate $73,100,000 and continue to show an increase in the proportion of United States government bonds (direct or fully guaranteed) which now total approximately $46,650,000, or about 64 per cent, with individual bank holdings ranging as high as 95 per cent. Most of the bankers are following a fixed policy of selling substandard corporate issues as rapidly as is feasible and some are planning to dispose eventually of all corporate bonds and retain only United States government, State, and municipal securities. One bank, however, does not hold any United States government issues in keeping with a policy suggested by its investment counsel, and it is also noticeable that security portfolios of several other banks in this area which use this same investment service contain a relatively small proportion of United States government issues.

No criticisms were made by member bankers regarding their relations with the Federal Reserve Bank or the policies of the Federal Reserve System. Officers of one of the larger institutions expressed dissatisfaction with the national bank examiner's criticisms concerning the bank's management and policies. In several of the smaller member banks the officers were dissatisfied because of the small allotments received on their subscriptions for the December

offerings of United States government issues and one who expressed the view that "small institutions are being squeezed out of existence" has addressed a letter to the Secretary of the Treasury suggesting that all applications be accompanied by an affidavit to the effect that the subscription is not "padded". He believes that the large city banks subscribe for their legal limit as a matter of course, which action operates to the disadvantage of the country bank that puts in a subscription for its actual requirements.

Business conditions in this area have shown considerable improvement in recent months, largely because of an expansion in industrial activity and consequent increases in employment and payrolls. This is especially true in the cities of Binghamton, Johnson City, and Endicott, and to a lesser extent in Corning, Cortland, and Hornell. Elmira, however, has lagged somewhat behind and is said to be in need of additional manufacturing enterprises to provide employment for the available surplus labor.

Middlesex County, N. J.

Officers of banks in the larger centers report that there is very little demand for credit and, in several cases, that loan accounts including mortgages are only about one-quarter of total assets. Most of these bankers express doubt that there will be any great increase in the demand for business loans for some time to come. A number of banks, however, in the smaller communities have experienced some recent improvement in demand for credit, mostly from municipalities seeking funds for relief purposes, and from building and loan associations. Ten commercial banks and one savings bank hold an aggregate of $2,591,000 Federal Housing Administration insured mortgages, two institutions having purchased $950,000 of this amount from outside sources. Three banks which continue to grant Title II mortgages have sold an aggregate of $260,000 in order to reduce their portfolios, receiving a premium of 2 to 3 points and continuing to obtain a fee for servicing the loans.

In the sixteen counties visited, there are 123 commercial banks, 79 of which have issued preferred stock, capital notes or debentures aggregating $18,087,573 par value. Up to the present time twenty-six have paid off their entire issues amounting to $4,810,000, forty have made partial redemptions aggregating $3,411,050 and thirteen have not retired any - leaving fifty-three banks with a total still outstanding of $9,866,523 par value, retirable at $12,071,770, reflecting a redemption premium of $2,205,247.

PHILADELPHIA

The area covered by this report comprises nearly all of the Pennsylvania soft coal fields lying within the Third Federal

Reserve District. Conditions in these fields show improvement over those prevailing at the time of the visits in March of this year. However, this improvement is not general, as in some communities the mines are working but one day a week as against five days at other mines. It was said that only the larger and stronger companies are able to meet present market prices and are doing so only because present conditions are believed to be temporary.

The large shops and yards of the Pennsylvania Railroad at Altoona, after a period of inactivity early this year, have increased operations and the pay rolls now are exceeding $1,000,000 a month, a figure which assures good times for the section depending upon these yards for support. Other railroad activities have also increased and many of the small coal roads have recalled nearly all furloughed trainmen, firemen, and engineers.

Productive activity has increased sharply since early summer, in contrast with the downward trend prevailing at the same time last year. Factory employment, payrolls and working time have registered substantial gains. Output of bituminous coal likewise has shown a rising tendency, reflecting a more active demand from industrial consumers. The value of building permits issued, however, has declined considerably since midsummer, although some increase in the volume of residential construction was reported in November. Business at retail stores and sales of new passenger automobiles have shown a marked improvement in recent months. Farm cash income has increased seasonally owing to larger receipts from the sale of crops.

Total resources of all banks in this area are $1,700,000 less than in March, and this decline is attributed to a drop in deposits resulting from poor industrial conditions earlier in the year, and from low prices for farm products.

The two major problems of the banks are lessened earnings resulting from smaller loan portfolios, and security depreciation. While credit demand for real estate purposes was said to be good there is little increase in the number or size of requests for business credit. An increasing number of banks are trying to bolster income by creating or purchasing F.H.A. mortgages and find them a satisfactory investment. Other institutions are granting the various types of consumer credit, while two bankers report having built up a satisfactory volume of loans based on the cash surrender value of life insurance policies. The 6 per cent rate prevails, although there are numerous deviations from it depending upon the type and security of the loan. Two of the three banks which made a general reduction of the loaning rate to 5 per cent are now considering

returning to the 6 per cent rate, as the lower rate has seriously curtailed income without causing a compensating increase in loans.

Several comments were heard on Chairman Eccles' statement that excess reserves of member banks should be kept with the reserve banks. The tenor of the comments was that such a policy would cause radical changes in banking methods and would weaken or destroy the strong bond now existing between country banks and their city correspondents. One banker stated that, while he could see no need for a bank clearing checks other than through the reserve banks, there were many ways in which the city correspondents were helpful to country banks. One other banker said that he thought some banks had too many correspondent accounts. A third banker, however, took exception to the Chairman's remarks, stating that any attempt to disrupt relations between country banks and city correspondents would be to the detriment of banking, as country banks frequently call upon their correspondents for service or information, which could not be done if there were no compensating balances with the city banks. This banker characterized this idea as another means of increasing the amount that would be available for participation in the System's open market operations, which would further narrow the investment market and increase premiums on bonds beyond their present high figures.

The subject of membership was discussed with officers of those banks believed to be in acceptable condition but the officers' replies usually were to the effect that, while they appreciate what the reserve system has done for banking and would not want to see it eliminated, they have no present desire to become affiliated with it, as they fail to see where any material benefit would accrue to their institutions to offset the advantages of having a banking system independent of control by the Federal government.

CLEVELAND

The increase in industrial activity has engendered a somewhat better feeling among bankers although it is still recognized that many problems remain to be solved. Some banks report increased activity in the commercial loan field but on the whole a greater volume of credit seems to have been retired during the past six months than has been newly granted.

There continue to be complaints concerning the unfair competition afforded by Federal savings and loan associations, particularly in that their advertising is said to be of a type which is distinctly misleading. Despite the fact that the Federal law prohibits advertising falsely that accounts of Federal savings and loan

associations are insured by the Federal government, or by any instrumentality thereof; and despite the fact that the regulations of the Federal savings and loan associations provide that associations shall not accept "deposits" from the public, and shall not represent themselves as "deposit" institutions, many of them are advertising Federal insurance, and referring in advertising matter to "money deposited", or "deposits made", or "deposits insured". A few specimen advertisements of a type which seem to us to be improper if not actually in violation of law or regulation, are enclosed with this letter. As the Board is aware, savings and loan associations are regarded by a substantial part of the public as banks, such impression being the result of advertising, over a period of years, of a nature which is ethically doubtful, and of a physical set-up which closely resembles that of the ordinary commercial or savings bank.

Movement toward shorter banking hours continues, to conform to provisions of Federal law, and in the State of Ohio, to conform to State law in so far as it relates to employment of female labor. The net result of legislation in the State of Ohio, limiting work hours per week and per day of female labor appears to be resulting in a displacement of such female labor by the employment of male help. Banks which long have persisted in the practice of offering extremely long hours of service have been reducing them, sometimes through earlier afternoon closing, and in other cases by later opening hours. Many banks in small centers have been remaining open on Saturday nights, but are discontinuing the practice and there appears to be a strong trend toward Saturday noon closing in many communities. Bank officers operating under such revised schedules report no ill effects, and a distinct improvement in efficiency.

RICHMOND

West Virginia

In Raleigh, Summers, and Fayette Counties banks adhere to a rate of 6 per cent on loans, pay $2\frac{1}{2}$ per cent on time deposits, and have nominal service charges. They are thus confronted with a tendency for time deposits to expand and an accumulation of idle funds. Banks have found it impossible to agree upon a uniform schedule of service charges, but some have turned to personal income and installment loans, while others ignore these and make FHA loans. In spite of complaints about scarcity of loans, banks in this region made net additions to profits somewhat better than the average for banks of their class in 1937 and indications are that they will not fall far short of this achievement in 1938.

The banks of Wayne and Mason Counties, on the western border of the State, show little change in deposits and loans. However, it

is said that the character of the latter has changed, old and prime loans being paid off and their place taken by consumer credit loans. The latter have proved to be highly profitable. Banks are also looking with increasing approval upon FHA loans and there is a tendency in some instances for banks to expand real estate loans beyond the limits permitted by law. The loan rate generally adhered to is 6 per cent, but concessions are made if necessary to get the business. While 2 per cent is paid on time deposits, service charges are not uniformly developed.

Maryland

Banks in Annapolis are paying 2 per cent on time deposits and are also giving careful attention to the cost of carrying deposit accounts and the maintenance of adequate service charges. One bank has financed more than 900 FHA loans for an aggregate in excess of $3,000,000. It reports that such loans, when consummated, are readily saleable to other banks and financial institutions, particularly in New England. The rates on these loans range from 4½ per cent to 6 per cent. Installment and personal loan departments have not yet been promoted actively.

Baltimore banks show steady or slightly increasing deposits, and while some are paying not to exceed 2 per cent on time deposits, others are paying only 1 per cent. The loan rate ranges from 4 to 6 per cent but there is general complaint because of the scarcity of good loans. A few banks report a growing volume of small loans, amortized quarterly, while others have found outlet for funds in FHA loans. For investments, Federal securities are preferred, although there is an active interest in real estate loans. Large excess reserves are carried and there is some anxiety about the future of earnings in view of present slack demand for loans.

Western Virginia

Banks in this region (Alleghany, Bath, Rockbridge, Rockingham, Augusta, and Shenandoah Counties) confront the general problem of a growth of deposits in excess of the growth of loans and investments. Consequently there is some concern about ways and means of putting accumulating idle funds to work. In general, 2 per cent is paid on time deposits and the proportion of time deposits to total deposits is larger than most bankers desire. For the major portion of all loans the rate is 6 per cent, but there is a tendency to a lower rate on collateral loans and a growing disposition to make FHA loans at 5 per cent. Recently a regional clearing house association has been organized and includes banks in five of these counties. Its primary purpose was the inauguration of a system of uniform service charges.

Western South Carolina

The banks in these counties - Lexington, Newberry, Oconee, Pickens, Greenville, and Anderson - have experienced an expansion of demand

deposits chiefly because of the distribution of cotton subsidy payments. Generally speaking, banks do not encourage the expansion of time deposits and few banks pay more than 2 per cent on the first $1,000 of such deposits and 1 per cent on the excess. Loans have shown little or no tendency to expand.

Some bankers are pessimistic about the future earning power of banks in view of the small demand for local loans, the low rates of interest on these, and the low yields on securities. Some banks are confronted with an investment problem and consultation with New York correspondents has frequently indicated wide differences of opinion among them as to the essentials of sound policy. In general, banks are confining investments to Federal, state, and municipal bonds, seeking a satisfactory combination of liquidity and earnings but with the feeling that one of these must be sacrificed.

As for industrial and agricultural conditions, it appears that the statistical position of some of the mills has become impaired in recent months as a result of the accumulation of heavy inventories and unsatisfactory prices. Nevertheless, production has been carried on a full-time basis, i.e., two eight-hour shifts, five days per week, in nearly all mills. Thus pay rolls have been sustained at the price of inventory accumulation. The position of planters is far from satisfactory. The cotton crop for 1938 came to about 60 per cent of the 1937 crop. Cotton subsidy payments helped the planters in that many of them were enabled to meet maturing bank obligations, but these payments have not been sufficient to make up for the short crop. Some bankers maintain that conditions among the farm population generally are the worst they have experienced since 1933. In a few sections farmers have developed other cash crops, but their volume does not yet make up for the decline in cotton acreage and prices.

ATLANTA

East Tennessee

Our representative visited twenty-one member and seventeen nonmember banks located in twenty counties in the eastern part of Tennessee. Almost without exception the banks visited reported deposits as being equal to or more than a year ago. As compared with the same date in 1937, the volume of loans generally showed little, if any, reduction. A few banks, however, reported increased loans and a fair demand for credit. No increased demand for credit is anticipated before next spring, when crop loans and cattle feeding loans will be made. The rate charged on most loans is 6%, with some choice commercial lines being handled at 4%. A majority of the banks visited reported good earnings for the year.

The burley tobacco crop, with sales beginning at most points December 7 is expected to bring an average of 20¢ per pound and a total return of close to $12,000,000. At Greeneville and other points having

sales floors the tobacco crop is reported to be of much better quality than in 1937, but because the tobacco this year is lighter in weight the poundage per acre is less than in 1937. This condition may be offset by higher price, due to quality. Several of the banks visited will experience during the next sixty days increased demand for loans from tobacco warehouses. However, the sale of the crop will enable many growers to pay or curtail their bank loans.

Farmers have had a good year in the production of corn, cotton, live stock and beef cattle. An unusually large crop of hay was raised this year. In several communities visited employees of industrial plants are drawn from the surrounding farming section and their wages, supplementing the family's farm income, has helped keep the farmers out of debt.

The main complaint encountered is the difficulty of employing excess funds at profitable yields on favorable risks. It was found that most of the banks visited have installed service charges and about half have reduced the rate of interest paid on time deposits to 2%. Time deposits in banks visited range from 25% to 75% of total deposits. One member reported that it had recently refused a $5,000 time deposit on which interest at the rate of 2% would have been paid. Another member, with a large number of customers employed by railroad shops, reported that service charges this year totaled 13% of its $25,000 common capital stock.

Most of the nonmember banks visited, while apparently friendly toward the Federal Reserve System have given no serious consideration to membership, this being particularly true of banks with deposits of less than $1,000,000. But two nonmember banks with deposits of less than $1,000,000 stated that they intended making application for membership as soon as minimum capital requirements could be met. Loss of exchange income was, with few exceptions, given as the main reason for not desiring membership. The fear of excessive "red tape" also seems to exist. Every effort was, of course, made to correct this impression.

CHICAGO

Many banks in this district are showing better earnings from operations; an increased number will pay dividends, though these are being restricted to modest figures; and quite a few are increasing their capital. Several consolidations are pending throughout the district.

Loans show a seasonal decline, notwithstanding extra efforts on the part of banks to find new loans. Apparently there is no need for any additional loaning agencies as there is no indication of any demand for commercial or industrial credit which is not being adequately taken care of by existing institutions. Very few inquiries are received at this bank for so-called "industrial loans". A recent survey shows that government lending on farm lands has probably passed its peak.

Reports for the states of Illinois, Indiana, and Wisconsin indicate a further expansion in manufacturing and non-manufacturing employment and pay rolls during the period from November 15 to December 15. Durable goods were mainly responsible for the rise in manufacturing employment and pay rolls. Chicago district steel mills were operating at 52-1/2 per cent of capacity at the beginning of 1939 as compared with 24-1/2 per cent a year ago at the same time. Automobile production was much heavier than a year ago during December, and seems to have been equal to or slightly above November, despite year-end curtailment. Automobile production in the week ended December 31 was 19 per cent under a week earlier but 52 per cent ahead of last year (this figure includes trucks). Seventh district building in the first three weeks of December continued more than double that of a year ago.

December production of American cheese by Wisconsin factories declined 7 per cent from November but totaled slightly over the 1937 amount; sales of this commodity during December declined much less than is seasonally expected, and were 23 per cent heavier than in the 1937 month. Brewery interests in the Milwaukee area report business satisfactory and the outlook excellent.

Letters received from a number of small banks following the receipt of allotment notices on the December 15 Treasury offering indicated disappointment at the small allotments received arising out of the fact that the allotment formula for the December issues was applied to subscriptions of $1,000 and less. Some of these banks seemed to be under the impression that the larger banks received preferential allotment. We endeavored to point out to them the fact that all banks regardless of size, were limited in their subscriptions to amounts not exceeding one-half of the capital and surplus of the subscribing bank and also that the $1,000 subscription was being so universally abused that the offenders far outnumbered the legitimate subscribers who actually wanted to purchase and retain small amounts of Government securities. Many small banks and small subscribers are undoubtedly disappointed and somewhat resentful at the above procedure although from our observation more harm would be done by continuing the policy of alloting the small subscriptions in full.

Orders for United States Savings Bonds filed through this bank in December, 1938 showed an approximate increase over December, 1937 as follows:

50 per cent in maturity values
60 per cent in number of orders
70 per cent in number of pieces

A substantial portion of the above increase results from banks who ordered their quota of 1938 Savings Bonds before the end of the year; the heavy orders being received in January indicate that banks very generally are ordering their 1939 series at this time.

ST. LOUIS

Most country bankers visited, particularly those in southeastern Missouri, feel that conditions throughout the year 1938 showed considerable improvement over 1937. Those sections which produce cotton reported the best yield in recent years. The crop was of excellent quality and commanded a fair price.

The lead mines in Iron and St. Francois Counties, Missouri, have increased operations and a slight increase in employment was reported in other industrial communities. However, it is the general opinion that there is little prospect for any great expansion until present inventories are absorbed.

Business at Owensboro, Ky., is on the boom. Oil drilling, the building of a bridge across the Ohio River, water and light project, and the rebuilding of the Glenmore Distillery which was destroyed by fire, all contribute to this lively business situation. In some cases, bank deposits have nearly doubled during the past year.

There is evidence of further liquidation of agricultural loans because of wide distribution of farm income among the farmers. This is augmented by payments to those cooperating under crop control program. Loans decreased in larger city banks, but some rural bankers reported a brisk demand. Four to eight per cent is the prevailing rate.

The margin of profit was foremost in the minds of most bankers as the calendar year came to a close. The majority of banks visited reported earnings much the same as in 1937 and in a few instances profits were higher. Excessive cash reserves and lack of suitable investments were reflected in the earnings.

The cashier of a Kentucky State member with deposits of $282,000 is surprised that more of the smaller banks do not grasp the advantages of membership in the System. He expressed the opinion that the purchase and sale of securities with the resultant savings, should alone induce serious consideration of membership by a country bank.

The cashier of a Kentucky national bank indicated that it was having a greater demand for good loans than it could meet without selling Governments or borrowing. He feels that the bank should sell Governments and take care of the interests of the community, but members of his board do not concur in this view. The predecessor bank was liquidated, which undoubtedly accounts for the directors' ultra-conservatism with regard to local loans.

Officers of the larger St. Louis member banks feel that our requesting them to minimize the deposit of fit currency with this bank is entirely reasonable and have promised their cooperation.

The president of a Missouri nonmember, which is not on the par list, readily admitted that the practice of charging exchange on customers' checks received through the mail was contrary to sound banking practice, and might even be termed "unchristian", realizing that it was purely taking advantage of the method of presentation of the checks. The cashier of another Missouri nonmember, which is on the par list, is definitely opposed to the practice of charging exchange on checks and feels that those banks which are not on the par list should be compelled to accept items at par.

The cashier of a Kentucky nonmember still feels our par collection system is wrong but has reconciled himself to it. This is the only objection he ever had to the Federal Reserve System. The chairman of the board of a Missouri nonmember is also unfriendly toward the System, largely because of the par situation.

MINNEAPOLIS

Meeting of the Central Minnesota Clearing House Association, Melrose, Minnesota, November 29, 1938

The bankers were in a very cheerful frame of mind. Crops have been good in this area, and there will be a large movement of hogs to market. In fact, the movement has already begun. A number of the independent bankers stated that their institutions were rather fully loaned up at the present time, due to the heavy hog feeding program and the unwillingness of farmers to sell feed grain at existing prices. However, within the last four or five days, liquidation of hog loans has begun and within the next sixty days both feeder loans and barnyard loans should be materially reduced. The bankers seemed well pleased with the prices of hogs, cattle, and butterfat; but they expressed some concern over the possible adverse effects of the labor trouble at the Chicago stockyards and the heavy carry-over of butter in the hands of government agencies.

Bank visitations of Twenty-six Banks - 12 National Banks, 14 Nonmember State Banks

The area covered by this report comprises southern and central Minnesota.

Twenty-six banks were visited in this area. Deposits have shown a seasonal downward trend, which is accounted for by farmers withholding the sale of their cash crops and using their funds in paying operating expense until the sale of hogs and cattle which will begin in volume the latter part of this month and the first of January. Most of the banks have not complained about this downward trend of deposits for the reason that the majority of them have excess funds and have not been obliged to borrow.

A substantial portion of new deposits will be derived from 1938-1939 corn loans. A number of bankers indicated that they felt the Commodity Credit Corporation program was weak economically and unsound in principle. They stated that many farmers were sealing their 1938 corn crops and receiving an advance which would net them about 54¢ a bushel; that they were purchasing corn on the market from farmers who were not qualified for corn loans, or were taking over their own 1937 crops on which they had received government advances on a basis of about 30¢ a bushel. It would appear that this practice itself assures a profit of about 25¢ a bushel.

The volume of local loans of country banks in the territory visited has shown a noticeable increase. Several bankers vehemently declared that their banks would never again purchase corporate securities and that their outside investments would be comprised almost entirely of municipal and government securities.

The Federal Wage and Hour Law was discussed in considerable detail at several group meetings. It appears that this law will not result in increasing employment in country banks, or create overtime for present employees, but it will shorten the official business hours of country banks.

A number of State bankers who have been members of the Minnesota Independent Bankers Association indicated that they expected to drop membership in that association.

KANSAS CITY

There is great concern about the winter wheat situation. Late last summer subsoil moisture was generally considerably improved over recent years but a dry fall eliminated surface moisture and much wheat did not germinate. In some fields wheat came up well; in others in the same community it did not come up at all; while in other places the plant is very weak. Much wheat was resown and some of it as late as in December.

It appears that nearly 14 million acres were seeded in Kansas as against almost 17 million last year and about 11 million desired by the farm program. But if present unfavorable conditions continue, abandonment may easily reduce acreage to the latter figure.

To a lesser extent livestock, and especially cattle, is a matter of much interest. In many localities there appears to be considerable demand for money to buy cattle. But bankers complain that the financial condition of many prospective borrowers is poor and that loans too often entail the advancement of nearly the whole of the purchase price. With present cattle prices such lending is felt to be hazardous. In particular there is complaint of the high price of milk cows as it is said cows of not highest quality sell from $60 to $85.

More instances were found of profitable service charges. One bank with deposits of $100,000 has only one service charge--that being two cents a check irrespective of the number of checks drawn or the size of the deposit account. This charge nets this bank $500 a year. All this bank did was to continue the tax of two cents a check which the Government abandoned some years ago.

Banks appear to be paying from 1 to 1½ per cent for time deposits. While admitting that this is unprofitable, various reasons are given for paying such rates for funds that have little earning power. The most important factor is the competition of the Post Office. Bankers seem quite anxious that savings depositors do not break the habit of coming into the bank.

Banks that have large amounts of time money find themselves in a real dilemma. Where rates have been cut there is a feeling that, should the demand for funds increase and money rates advance, it may be necessary to restore the higher rates in order to hold a considerable part of this money. If this money can not be held serious losses might be sustained in liquidating investments purchased at present inflated prices. Just how to invest in long-term securities where only can be secured a return adequte to meet the present and prospective cost of time money and at the same time hedge the chance of serious loss in such securities is a matter of much concern. Bankers with large amounts of time money express a fear of getting caught in this trap.

Much complaint is heard that under present oil proration quotas there is no money in oil. Oil production is so restricted that it produces little in the way of bank deposits or opportunity for bank loans. At present rates of production it is said it takes from ten to fifteen years in some places to pay for new wells. On the other hand, there is a good deal of new leasing taking place in certain parts of the District. This lease money is widely distributed among farmers and is a real boon to those communities.

In Colorado both lamb and cattle feeding is appreciably under last season. Last year lamb feeding was not, as a rule, profitable and that experience is having a restraining influence on present operations. The present high price of feeder cattle and the possibility of lower prices in the spring and early summer for finished animals is the principal factor in the cattle-feeding situation. In the irrigated regions there is much complaint of beet-sugar results. The crop is good but financial returns to the grower highly unsatisfactory. This is due, it is said, to low prices, acreage restrictions, and labor matters. One banker told a representative of this bank that if present conditions continue he would finance in the future only those growers who do not have to hire labor.

DALLAS

Dallas made no bank visits during the month of December.

SAN FRANCISCO

Los Angeles County

The year may be characterized generally as one of large crops in relation to demand, with unsatisfactory returns to farmers. This was particularly true in connection with citrus fruits, where the supply reached surplus levels and returns were below cost of production in most instances. Agricultural income this year averaged considerably less than for 1937, although relatively satisfactory returns were received by truck farmers and somewhat higher prices were obtained for walnuts. Based on the reduced supply of walnuts in packers' hands at present, a complete clean-up without a carry-over is anticipated for this year's crop.

Over-production is the bane of the local milk industry, and this condition is expected to continue as long as the Los Angeles area is without adequate facilities for the disposal of surplus or the formation of a definite and enforceable marketing agreement. In connection with the latter, current reports are that the major producers have recently agreed, voluntarily, on higher prices to producers after January 1.

Building and construction activities, in the aggregate, have shown increases over 1937.

Activities in the fishing and fish canning industries during the year continued at very satisfactory levels, although aggregate output was somewhat less than for 1937. The pack-out was reduced chiefly because of comparatively heavy carry-over stocks from the previous year and minor labor disputes. Prices, however, have been satisfactory, and those engaged in the fishing industry are reported to have experienced a good year.

Conditions in the petroleum industry were particularly unfavorable the past year. Oil inventories continued to increase, and the problem of overproduction became more acute as the year progressed. The already heavy inventory position was augmented during the year by relatively large supplies being made available from new exploitations, especially in the Wilmington and Long Beach districts. Because of the excessive supply of oil, producers generally curtailed new developments wherever possible, and a concerted effort was recently made to reduce production more in line with consumption.

Orange County

The citrus industry is the backbone of Orange County; consequently, the success or failure of the growers reflects in large part the

prosperity of the county. During 1937 the growers were very adversely affected by the freeze in the spring of the year, and this year had to market the largest crop at the lowest prices on record. The result is that this year the better growers will about break even, while the poorer ones will show a loss. The growers are next season faced with another bumper crop, which will break all records, and the outlook is not promising.

Owing to the magnitude of the citrus crop and the large amount of money expended in its harvesting, bank deposits have held up remarkably well, and in a few localities retail business this year is estimated to be about 10% in excess of last year.

Riverside County

The same conditions generally were experienced in this county the past year in connection with the production and sale of citrus fruits and walnuts as in other similar producing areas served by this branch.

Satisfactory alfalfa hay, tame hay and grain crops were harvested, although returns were relatively low and below last year's averages. Truck farmers, as a whole, received fairly satisfactory prices for their produce, but those producing potatoes and melons are understood to have received lower returns. Cherry growers, likewise, had a relatively unsatisfactory year, due to the reduced prices.

San Bernardino County

Citrus conditions in the county during the year followed the general trend for the industry as a whole, with supplies exceeding the demand and returns received by growers disappointingly low and below cost of production in most instances. Walnut prices, however, were somewhat higher than last year, although the production was below that for the year 1937, due in part to losses resulting from pest infestation.

While satisfactory peach, pear and apple crops were produced during the year, returns in the aggregate were low and a portion of the crops in some instances were not harvested. Due to heavy competition from citrus fruits at low prices, the demand for apples was considerably less than normal. Also, in view of relatively heavy carry-overs in packers' supplies of canned peaches and pears, the usual demand for these fruits was lacking, with a resultant reduction in price.

With a bumper grape crop for the second successive year, the growers experienced a severe reduction in income, despite institution of a prorated program, which established base prices and prevented what almost certainly would otherwise have resulted in a complete collapse of the market. Those growers who converted their grapes into wine are understood to have shown a small profit from operations, while those who did not operated at a loss.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

December - 1938

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	2	--	2	--	--	--	--
New York	113	40	153	5	2,755	8	295
Philadelphia	66	21	87	2	500	1	75
Cleveland	146	31	177	5	1,294	4	150
Richmond	80	22	102	2	250	--	--
Atlanta	23	17	40	--	--	--	--
Chicago	8	5	13	2	3,000	1	60
St. Louis	74	263	337	5	422	1	70
Minneapolis	31	33	64	7	557	6	317
Kansas City	37	63	100	6	755	3	355
Dallas	--	--	--	--	--	2	83
San Francisco	49	20	69	8	701	1	75

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-388 39

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1939.

Dear Sir:

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

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

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT RICHMOND

R-388-a

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

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	30,375	551	30,926	$ 592.05	$ 306.37	$ 285.68
New York	96,244	-	96,244	1,842.50	1,031.79	810.71
Philadelphia	27,467	552	28,019	536.40	246.92	289.48
Cleveland	41,428	553	41,981	803.69	283.02	520.67
Richmond	37,353	551	37,904	725.64	233.75	491.89
Atlanta	50,223	551	50,774	972.02	307.80	664.22
Chicago	73,219	812	74,031	1,417.26	1,232.03	185.23
St. Louis	47,379	551	47,930	917.58	250.36	667.22
Minneapolis	21,867	551	22,418	429.17	148.35	280.82
Kansas City	52,678	551	53,229	1,019.02	269.11	749.91
Dallas	40,177	619	40,796	781.00	279.09	501.91
San Francisco	57,702	670	58,372	1,117.48	373.25	744.23
Board of Governors	313,378	-	313,378	5,999.33	12,191.30	-
Total	889,490	6,512	896,002	$17,153.14	$17,153.14	$6,191.97

(1) Based on cost per word ($.019144087) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies ($1,727.28) and wire rental ($10,464.02). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

R-389

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1939.

Dear Sir:

On Monday, February 13, 1939, a majority of the Federal Reserve banks and branches will be closed in observance of the anniversary of the birth of Abraham Lincoln and accordingly there will be neither transit nor Federal Reserve note clearing through the Interdistrict Settlement Fund. For your information, the Board of Governors is advised that the following Federal Reserve banks and branches will be open for business on February 13:

Boston	Atlanta	St. Louis
	Birmingham	Little Rock
Cleveland	Jacksonville	
Cincinnati	New Orleans	Kansas City
		Oklahoma City
Richmond		
Baltimore		
Charlotte		

On Tuesday, February 21, Mardi Gras Day, the New Orleans Branch of the Federal Reserve Bank of Atlanta will be closed. Please include transit clearing credits of February 21 for the New Orleans Branch with your credits for Thursday, February 23.

On Wednesday, February 22, in observance of Washington's Birthday, the offices of the Board of Governors and all Federal Reserve banks and branches will be closed.

Please notify branches.

Very truly yours,

L. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-390

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 21, 1939.

Dear Sir:

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

NUBDEI - Treasury Bills to be dated January 25, 1939, and to mature April 26, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-391

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Wednesday, January 25, 1939.

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

Volume of industrial production declined seasonally in December and showed little change in the first three weeks of January, when an increase is usual. Wholesale commodity prices were steady. Employment and payrolls increased further in December, and retail sales showed more than the usual seasonal rise.

Production

In December volume of industrial production declined by about the usual seasonal amount and the Board's adjusted index was at 104 percent of the 1923-1925 average, about the level reached in November following an exceptionally rapid advance after the middle of the year. Changes in output in most lines in December were largely seasonal. In the steel industry, however, production showed a greater than seasonal decline, and averaged 54 percent of capacity in December as compared with 61 percent in November. Lumber production showed little change from November to December, although usually there is a decline, and at textile mills and shoe factories activity declined less than seasonally.

At meat-packing establishments there was a reduction in output.

Automobile production increased somewhat further in December. In the fourth quarter of 1938 production and sales of the new model cars were in about the same volume as in 1937; dealers' stocks of new cars increased seasonally in this period but at the year end were much below the high level of a year earlier.

Value of construction contract awards increased considerably from November to December, according to F. W. Dodge Corporation figures for 37 Eastern States. The increase reflected principally a further rise in contracts awarded for Public Works Administration projects, which accounted for most of the sharp increase in awards that occurred in the last half of 1938. Contracts for private residential building decreased less than seasonally in December, while other private construction showed little change and remained at a low level.

Employment

Employment and payrolls rose further between the middle of November and the middle of December. In most manufacturing lines the number employed continued to increase, when allowance is made for the usual seasonal changes, and in the automobile and machinery industries the rise was considerable. Employment and payrolls in trade increased more than is usual in the holiday season and in the construction industry employment showed much less than the usual seasonal decline.

Distribution

Distribution of commodities increased more than seasonally in December. Sales at department stores showed the usual sharp expansion

prior to Christmas and sales at variety stores and mail order sales showed a more than seasonal rise.

Freight-car loadings declined seasonally from November to December, reflecting largely the customary decrease at this time of year in shipments of miscellaneous freight.

Bank credit

As the result of the post-holiday return of money from circulation, together with Treasury disbursements from its balances with the Reserve banks, and gold imports, excess reserves of member banks increased nearly $600,000,000 in the four weeks ending January 18 to a new high level of $3,560,000,000. A large part of the increase occurred at New York City banks.

Total loans and investments of reporting member banks in 101 leading cities, which increased substantially in the first three weeks of December, declined in the following four weeks. There was some decline in loans and a reduction in holdings of United States Government obligations, reflecting in part distribution to the public of new securities purchased by banks in December. Deposits declined somewhat in the latter part of December but increased in January.

Money rates and bond yields

Average yields on United States Government securities declined slightly in December and the first three weeks of January. For three consecutive weeks the entire new issue of 91-day Treasury bills sold on or slightly above a no-yield basis. Commercial paper rates declined slightly in January while other open-market money rates continued unchanged.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 25, 1939.

Dear Sir:

There is enclosed a copy of Form F. R. 416, which has been revised largely to correspond with changes recently made in the form of member bank call report. It will be appreciated if you will arrange to have reports submitted in accordance with the revised form beginning with Wednesday, February 8, 1939.

In drafting the revised form consideration was given to the desirability of the Board's printing a supply thereof for the use of weekly reporting member banks in all districts. Since it appears, however, that most of the Reserve banks prefer to use weekly report forms printed in a style adapted to their particular needs, the existing practice of each Federal Reserve bank's printing its own supply may be continued.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Form F.R. 416
(Face side)
(Revised Jan. 1939)

IMPORTANT: The quarterly call condition report should be used as a guide in the preparation of this report. The corresponding items in the call report are shown in parentheses following the respective items in this report.

WEEKLY REPORT OF CONDITION OF _____

of _____ (City) _____ (State) _____ (F. R. District No.)

at the close of business on Wednesday, _____, 19____.

	Thousands of dollars	Code
ASSETS		
1. Loans and discounts (Schedule A in call report):		
a. Commercial, industrial, and agricultural loans (Schedule A, items 1 and 2)		PADA
b. Open market paper (Schedule A, item 3)		PACT
c. Loans to brokers and dealers in securities (Schedule A, item 4)		POME
d. Other loans for the purpose of purchasing or carrying stocks, bonds, and other securities (Schedule A, item 5)		PEAL
e. Real estate loans (Schedule A, item 6)		PULL
f. Loans to banks (Schedule A, item 7)		PANA
g. All other loans, including overdrafts (Schedule A, items 8 and 9)		PETO
2. Bonds, stocks, and securities (Schedule B in call report):		
a. U. S. Treasury bills (Schedule B, item 1(a)(1))		PELT
b. U. S. Treasury notes (Schedule B, item 1(a)(2))		PERN
c. U. S. Government bonds (Schedule B, item 1(a), subitems (3), (4), (5) and (6))		PITT
d. Obligations guaranteed by U. S. Government (Schedule B, item 1(b)(5))		PINE
e. Other bonds, stocks, and securities (Schedule B, items 2(e), 3(e) and 4(f))		PURE
3. Cash, balances with other banks, including reserve balance, and cash items in process of collection (Schedule D in call report):		
a. Cash items in process of collection (except to the extent included in item 3b) (Schedule D, item 1)		PUFF
b. Demand balances with banks in the United States (except private banks and American branches of foreign banks) (Schedule D, item 2)		PAIR
c. Other balances with banks in the United States (including private banks and American branches of foreign banks) (Schedule D, item 4)		PORO
d. Balances with banks in foreign countries (including balances with foreign branches of other American banks, but excluding amounts due from own foreign branches) (Schedule D, item 5)		PEEN
e. Currency and coin (Schedule D, item 6)		PICT
f. Reserve with Federal Reserve bank (Schedule D, item 7)		PENT
4. Other assets (Asset items 7 to 11, inclusive, in call report)		PEEK
TOTAL ASSETS		PASS

(See reverse side for "Liabilities")

THIS REPORT SHOULD BE MAILED TO THE FEDERAL RESERVE BANK ON THURSDAY MORNING

(WEEKLY REPORT OF CONDITION)

	Thousands of dollars	Code
LIABILITIES AND CAPITAL ACCOUNT		
5. Demand deposits (Schedule E in call report):		
a. Deposits of individuals, partnerships, and corporations (Schedule E, item 1)		PENN
b. Deposits of United States Government (Schedule E, item 2)		PAWN
c. Deposits of States and political subdivisions (Schedule E, item 3)		PARK
d. Deposits of banks in the United States (including private banks and American branches of foreign banks) (Schedule E, item 4)		PUMA
e. Deposits of banks in foreign countries (including balances of foreign branches of other American banks but excluding amounts due to own foreign branches) (Schedule E, item 5)		PILK
f. Certified and officers' checks, etc. (Schedule E, item 6)		PEON
6. Time deposits (Schedule F in call report):		
a. Deposits of individuals, partnerships, and corporations (Schedule F, item 1(f))		PECK
b. Postal savings deposits (Schedule F, item 2)		POSA
c. Deposits of States and political subdivisions (Schedule F, item 3)		PANN
d. Deposits of banks in the United States (including private banks and American branches of foreign banks) (Schedule F, item 4)		PEGG
e. Deposits of banks in foreign countries (including balances of foreign branches of other American banks but excluding amounts due to own foreign branches) (Schedule F, item 5)		PURR
7. Bills payable, rediscounts, and other liabilities for borrowed money (Liability item 20 in call report)		PAIN
8. All other liabilities (Liability items 21, 22 and 23 in call report)		PULA
9. Capital account (Item 29 in call report)		PATE
TOTAL LIABILITIES AND CAPITAL ACCOUNT		POST
MEMORANDA		
10. Debits to demand deposit accounts of individuals, partnerships, and corporations, during the report week ending Wednesday (i.e., debits to deposit accounts reported in item 5a above)		PURT
11. Debits to demand deposit accounts of States and political subdivisions, during the report week ending Wednesday (i.e., debits to deposit accounts reported in item 5c above)		PENO

(Signature of officer of bank)

(Title of officer)

(See face side for "Assets")

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 27, 1939.

Dear Sir:

There are being forwarded to you under separate cover copies of page 48 of the "Manual of Instructions Governing the Preparation of Functional Expense Reports (Form E)", revised as of January 1, 1939. An additional copy of page 48 is enclosed for your information.

It was necessary to revise page 48 because the expense item, "Post office box and postage-meter rental" was inadvertently omitted from the copies sent to you with our letter R-375 of December 30, 1938.

Very truly yours,

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

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-394

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 28, 1939.

Dear Sir:

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

NUBDIX - Treasury Bills to be dated February 1, 1939, and to mature May 3, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-395

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 28, 1939.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code word has been designated to cover an issue of United States Housing Authority Notes:

> NOWMOPS - 1 3/8% Notes of Series B, United States Housing Authority, dated and bearing interest from February 1, 1939, and due February 1, 1944.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-396

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 31, 1939

Dear Sir:

Under date of January 20 the Acting General Counsel of the Treasury Department wrote the Board relative to suggested legislation to reimburse the Board of Governors of the Federal Reserve System and the Federal Reserve banks for certain losses sustained by them as a result of the redemption of certain Federal Reserve notes and Federal Reserve bank notes which have heretofore disappeared from the custody of the Bureau of Engraving and Printing and entered into circulation without being regularly issued.

In accordance with the request of the Treasury Department, it will be appreciated if you will furnish us with the following documents or information as promptly as convenient for transmission to the Treasury Department for its use in considering this matter:

1. The amount of losses which have been sustained by your bank as the result of the redemption of any Federal Reserve notes or Federal Reserve bank notes which disappeared from the Bureau of Engraving and Printing and got into circulation without being regularly issued (the notes in question are probably notes which entered into circulation without proper seals or serial numbers);

2. The date of redemption, the bank of issue, and the serial number of each such note so redeemed;

3. To what degree your bank has been indemnified in any manner for any losses so sustained; and

4. A copy of the agreement and contract with the indemnity company under which any such indemnification was made.

The Issue and Redemption Division of the Office of the Comptroller of the Currency is now holding Federal Reserve notes and Federal Reserve

bank notes which were put into circulation without being regularly issued amounting to $6,282.50, including $700 of Federal Reserve notes in the $100 denomination of the Federal Reserve Bank of Minneapolis, which disappeared from the Bureau of Engraving and Printing in 1933.

Your report should include any notes redeemed by your bank which were subsequently forwarded to Washington and are now included in the total of $6,282.50 referred to above. In your reply it will be appreciated if you will state what disposition was made of each note redeemed.

Very truly yours,

E. L. Smead

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

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-397

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 1, 1939.

Dear Sir:

In accordance with the customary procedure, there is transmitted herewith, for your information, a copy of the certificate of the auditor of the Federal Reserve Bank of Chicago in connection with his audit of the accounts and records of the Board's Fiscal Agent for the period June 1 to December 31, 1938, inclusive.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BANK OF CHICAGO

I, John J. Endres, hereby certify:

(a) That a complete audit has been made of all entries in the accounts, "Board of Governors of the Federal Reserve System-Special Fund", "Board of Governors of the Federal Reserve System-Fiscal Agent", and "Board of Governors of the Federal Reserve System-Fiscal Agent Building Account", for the period June 1, 1938 to December 31, 1938, incl.

(b) That all cash received by the Board as shown by the cash receipts book has been deposited by the Fiscal Agent and properly credited by the Federal Reserve Bank of Richmond in the accounts, "Board of Governors of the Federal Reserve System-Special Fund", and "Board of Governors of the Federal Reserve System-Fiscal Agent Building Account".

(c) That all remittances made direct to the Federal Reserve Bank of Richmond for the account of the Board of Governors of the Federal Reserve System by the Federal Reserve Banks in compliance with the Board's instructions have been properly credited to the account, "Board of Governors of the Federal Reserve System-Special Fund".

(d) That each expenditure made by the Fiscal Agent was properly authorized by an administrative officer of the Board.

(e) That the items of receipts and expenditures shown by the books of the Fiscal Agent have been reconciled with the items shown in the statements of the Board of Governors of the Federal Reserve System's accounts prepared by the Federal Reserve Bank of Richmond.

(f) That the balances in each account as shown by the books of the Fiscal Agent have been reconciled with the balances standing to the credit of the Board of Governors of the Federal Reserve System on the books of the Federal Reserve Bank of Richmond as certified by the auditor of that bank.

(g) That all "Transfers of Funds" have been properly authorized by the Secretary of the Board or a member of the Board.

Respectfully submitted,

(Signed) John J. Endres

Auditor

January 28, 1939

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-398

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 2, 1939.

Dear Sir:

In the Board's letter of October 11, 1938, S-118, regarding the cost of the revised examination report form, it was stated that costs of future purchases of paper would be prorated among the various banks on the basis of the schedule contained in that letter and that forms printed from such supplies would be furnished without additional costs, except that in the case of substantial revision of the form, composition costs would be prorated.

An additional supply of paper costing $1,405.85 has been purchased and is now being used in multilithing additional copies of the report form. The Reserve banks generally have been requesting a larger number of these forms than was originally anticipated with the result that the original paper stock was used up a month ago. Moreover, the final bill covering the costs of the original multilith plates was in the amount of $243.00 instead of $195.00 as indicated in our letter of October 11, 1938. The additional charge of $48.00, therefore, is being prorated among the Reserve banks on the same basis as the other original composition costs. The following statement shows the distribution of these costs among the various Federal Reserve banks:

	Paper		Composition	Total
	Percent	Amount		
Boston	5	$ 70.29	$ 4.00	$ 74.29
New York	20	281.17	4.00	285.17
Philadelphia	10	140.59	4.00	144.59
Cleveland	10	140.59	4.00	144.59
Richmond	5	70.29	4.00	74.29
Atlanta	5	70.29	4.00	74.29
Chicago	15	210.88	4.00	214.88
St. Louis	5	70.29	4.00	74.29
Minneapolis	5	70.29	4.00	74.29
Kansas City	5	70.29	4.00	74.29
Dallas	5	70.29	4.00	74.29
San Francisco	10	140.59	4.00	144.59
	100	$1,405.85	$48.00	$1,453.85

Every Federal Reserve bank except the Federal Reserve Bank of Richmond should pay this assessment by transferring the amount shown in the last column of the statement through the Inter-district Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond should pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-399

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 4, 1939.

Dear Sir:

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

NUBDOW - Treasury Bills to be dated February 8, 1939, and to mature May 10, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-400

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 6, 1939.

Dear Sir:

Referring to the Board's letter R-380 of January 6, 1939, following is a statement of changes reported during January in the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Addition*

England London	Barclays Bank (Dominion, Colonial and Overseas) (including agency at New York City)

*Add to list of Nonmember Banks with Principal Places of Business in Territories, Insular Possessions, or Foreign Countries (page 5, R-380a)

Deletion

Pennsylvania Philadelphia	Banca Commerciale Italiana Trust Company

The Banca Commerciale Italiana Trust Company should be added with the following note to the list (R-380b) of banks which had in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, but which are no longer in operation as nonmember banks:

(Absorbed by the Liberty Title and Trust Company, Philadelphia, Pa., on December 31, 1938)

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-401

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1939

Dear Sir:

In accordance with the request of a Federal Reserve bank that new code words be assigned to certain issues of securities, the following assignments have been made.

NOWGEL - 2 3/4% HOLC Bonds of 1939-49

NOWHOPE - 3% FFMC Bonds of 1942-47

NOWIMP - 2 3/4% FFMC Bonds of 1942-47

NOWMUSE - 1% FHLB Debentures maturing July 1, 1939

NOWMYS - 2% FHLB Debentures maturing December 1, 1940

NOWNAG - 2% FHLB Debentures maturing April 1, 1943

Code words have not been assigned to these issues heretofore for the reason that it was felt there would not be sufficient call for the words to warrant the assignments.

The Federal Reserve bank referred to above also suggested that, because of a change of the name of the bank involved, the definition of the code word "Armthrust" should be changed to "New York, N. Y., Bank of New York". It has been assumed by this office that whenever the name of a bank included in the list of code words covering specific banking institutions is changed, the definition of the applicable code word would be changed accordingly without advice from this office.

Very truly yours,

S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-402

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 8, 1939.

Dear Sir:

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

> NOWNEL - 7/8% Reconstruction Finance Corporation Notes, Series R, to be dated February 15, 1939, and to mature on January 15, 1942.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release February 8, 1939

The Board of Governors of the Federal Reserve System today announced the appointment of James Odom, Contractor, Austin, Texas, as a director of the San Antonio Branch of the Federal Reserve Bank of Dallas for the unexpired portion of the term ending December 31, 1941.

R-404

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 13, 1939.

Dear Sir:

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

NUBDUM - Treasury Bills to be dated February 15, 1939, and to mature May 17, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-405

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 13, 1939.

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes from January 3 to January 30, 1939.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-405-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
January 3 to January 30, 1939.

Federal Reserve Notes, Series 1934.

	$10	$20	$5,000	$10,000	Total Sheets	Amount
Boston	66,000	12,000	-	-	78,000	$ 7,176.00
New York	188,000	20,000	100	100	208,200	19,154.40
Philadelphia	74,000	20,000	-	-	94,000	8,648.00
Cleveland	50,000	19,000	-	-	69,000	6,348.00
Richmond	44,000	22,000	-	-	66,000	6,072.00
Atlanta	24,000	6,000	-	-	30,000	2,760.00
Chicago	124,000	35,000	-	-	159,000	14,628.00
St. Louis	34,000	7,000	-	-	41,000	3,772.00
Minneapolis	19,000	6,000	-	-	25,000	2,300.00
Kansas City	24,000	8,000	-	-	32,000	2,944.00
Dallas	21,000	6,000	-	-	27,000	2,484.00
San Francisco	50,000	16,000	-	-	66,000	6,072.00
	718,000	177,000	100	100	895,200	$82,358.40

895,200 sheets @ $92.00 per M $82,358.40

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers
of February 15, 1939.

February 14, 1939.

The first meeting of the Federal Advisory Council for 1939 was held on February 13-14. Mr. Walter W. Smith was re-elected President and Mr. Howard A. Loeb was re-elected Vice President. These officers as ex-officio members and Messrs. Steele, Fraser, Hanes and Brown will comprise the Executive Committee. Mr. Walter Lichtenstein was reappointed Secretary.

The Council is composed of the following members:

Federal Reserve District	No. 1.	Thomas M. Steele, of New Haven, Conn.
	No. 2.	Leon Fraser, of New York, N. Y.
	No. 3.	Howard A. Loeb, of Philadelphia, Pa.
	No. 4.	T. J. Davis, of Cincinnati, Ohio.
	No. 5.	Robert M. Hanes, of Winston-Salem, N. C.
	No. 6.	Edward Ball, of Jacksonville, Fla.
	No. 7.	Edward E. Brown, of Chicago, Ill.
	No. 8.	Walter W. Smith, of St. Louis, Mo.
	No. 9.	John Crosby, of Minneapolis, Minn.
	No. 10.	John Evans, of Denver, Colo.
	No. 11.	R. E. Harding, of Fort Worth, Texas.
	No. 12.	Paul S. Dick, of Portland, Ore.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-407

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 14, 1939.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of January 1939.

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

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT RICHMOND.

R-407-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JANUARY, 1939.

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F. R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	23,527	717	24,244	$ 540.51	$ 353.32	$ 187.19
New York	70,891	-	70,891	1,580.50	1,036.66	543.84
Philadelphia	18,603	708	19,311	430.53	243.26	187.27
Cleveland	31,294	724	32,018	713.83	214.98	498.85
Richmond	25,624	707	26,331	587.04	199.20	387.84
Atlanta	43,566	707	44,273	987.06	300.36	686.70
Chicago	64,706	973	65,679	1,464.30	1,356.76	107.54
St. Louis	42,014	717	42,731	952.68	254.94	697.74
Minneapolis	17,230	716	17,946	400.10	183.07	217.03
Kansas City	42,970	717	43,687	973.99	264.31	709.68
Dallas	36,144	707	36,851	821.59	279.64	541.95
San Francisco	43,807	728	44,535	992.90	375.61	617.29
Board of Governors	252,974	-	252,974	5,639.99	11,022.91	-
Total	713,350	8,121	721,471	$16,085.02	$16,085.02	$5,382.92

(1) Based on cost per word ($.022294756) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies ($1,579.63) and wire rental ($9,443.28). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

R-408

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 15, 1939.

Dear Sir:

A representative of the National Emergency Council has suggested that we prepare a second radio script dealing with the Federal Reserve System to be presented, as before, in cooperation with that agency. Before committing ourselves to carry the matter any further we should like to collect a rather complete picture of your experiences with and reaction to the first experiment. The following questions will suggest the sort of information that might be helpful to us:

What broadcasts have you made? Where? When? Who represented your bank? Who represented the National Emergency Council? Were the arrangements satisfactory? Was the script too long? Too short? Did you find it advisable to revise the script? If so, would you send us a copy showing your revisions?

Have you had any inquiries that were obviously prompted by the broadcast? If so, what in general was the nature of the inquiries?

In view of the fact that several other government agencies have already participated in two or more broadcasts, would you suggest that we try at least a second, presumably dealing more specifically with the Reserve banks and their functions? If you favor another broadcast, would you prefer again to give it in cooperation with the National Emergency Council? If not, what else would you suggest?

Any other suggestions you care to make will be most helpful to us.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-409

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1939.

Dear Sir:

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

March 2 (Thursday) Texas Independence Day	Dallas El Paso Houston San Antonio
March 15 (Wednesday) Andrew Jackson's Birthday	Nashville Memphis
March 25 (Saturday) Maryland Day	Baltimore

On the dates given the offices concerned will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices concerned on the respective dates with your credits for the following business day. No debits covering shipments of Federal Reserve notes for account of the Federal Reserve Bank of Dallas should be included in your note clearing of March 2.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-410

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1939.

Dear Sir:

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

NUBEAT - Treasury Bills to be dated February 23, 1939, and to mature May 24, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-411

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 20, 1939.

Dear Sir:

The Board will publish a list of stocks registered on national securities exchanges, as of January 31, 1939, and three supplementary lists to be issued quarterly during the year 1939. These lists, to be published by the Board to facilitate compliance by banks with the provisions of Regulation U, will be similar in form to those published by the Board in 1937 and 1938.

In accordance with the procedure established in 1937, the Board will furnish one copy of the list and of each supplementary list free of charge to each member and nonmember bank in the United States and to all bank examiners and supervisory authorities. The Board will continue sending additional copies to those in this group who requested them in previous years and will continue sending copies free of charge to such national securities exchanges, government officials, members of Congress, press representatives and educational institutions as have previously requested copies. The Board will also send copies free of charge to any additional persons in the foregoing groups who request them for their own use.

The lists will also be supplied to brokers or other persons who may request them at a charge of 25 cents for the annual number and the three supplements. On bulk orders calling for five or more copies, the rate will be 20 cents per copy, and on orders for fifty or more copies the rate will be 15 cents. The Board has already sent a notice of the 1939 publication and an order form directly to each person who subscribed for copies of the lists in 1938.

Please notify the Board as soon as possible if your bank will require for its own use, including the requirements of its examiners, a different number of copies of these lists than it received last year. Please refer to the Board any requests or orders which you may receive from other persons.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Monday, February 27, 1939.

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

Industrial production increased less than seasonally in January and the first three weeks of February, following a rapid advance in the latter half of 1938. Wholesale commodity prices continued to show little change.

Production

In January volume of industrial production, as measured by the Board's seasonally adjusted index, was at 101 per cent of the 1923-1925 average as compared with 104 in December. At steel mills, where activity usually increases considerably at this season, output in January and the first three weeks of February was at about the same rate as in December. Automobile production declined seasonally in the first two months of the year as retail sales showed about the usual decrease and dealers' stocks reached adequate levels. Output of cement declined in January, and there was also some reduction in output of lumber and plate glass. In the non-durable goods industries, where production had been at a high level in December, activity increased less than seasonally. Increases at cotton,

silk, and tobacco factories were smaller than usual and at woolen mills there was a decline. Shoe production and sugar refining continued in substantial volume, and activity at meat-packing establishments showed little change, following a decline in December. Mineral production increased somewhat in January, reflecting an increase in output of crude petroleum.

Value of construction contracts awarded declined in January, according to F. W. Dodge Corporation figures, owing principally to a reduction in awards for publicly-financed projects, which had been in large volume in December. Contracts for privately-financed residential building continued at the recent advanced level, while awards for private nonresidential building remained in small volume.

Employment

Factory employment and payrolls showed the usual decline between the middle of December and the middle of January. In most individual industries, as well as in the total, changes in the number of employees were of approximately seasonal proportions. In trade, employment declined somewhat more than is usual after Christmas.

Distribution

Sales at department and variety stores and by mail order houses showed the usual sharp seasonal decline from December to January. In the first two weeks of February department store sales continued at the January level.

Volume of freight-car loadings in January and the first half of February was at about the same rate as in December.

Commodity prices

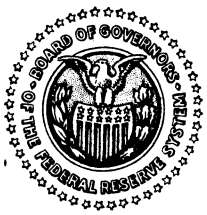
Wholesale commodity prices generally continued to show little change in January and the first three weeks of February. Grain prices declined somewhat, following a rise in December, while prices of hogs increased seasonally. Changes in prices of industrial materials were small.

Bank credit

Excess reserves of member banks, which reached a record high level of $3,600,000,000 on January 25, declined somewhat in February. This decline resulted chiefly from a temporary increase in Treasury balances with the Reserve banks representing cash receipts from the sale of the new United States Housing Authority and Reconstruction Finance Corporation notes. Purchases of these notes were also responsible for an increase in total loans and investments of reporting member banks in 101 leading cities, following a decline during January.

Money rates

Average yields on United States Government securities declined further during the first three weeks of February to about the lowest levels ever reached. New issues of 91-day Treasury bills, after selling at par or at a slight premium in late December and early January, were again on a slight discount basis during February. Other open-market rates continued unchanged.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-413

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1939.

Dear Sir:

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

NUBEDS - Treasury Bills to be dated March 1, 1939, and to mature May 31, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-414 Cancelled

Superseded by R-415

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 1, 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 January, 1939, in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-415-a

February 24, 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 January and excerpts therefrom will be found on the following pages. A table showing for all twelve banks the number of visits made, meetings attended, and addresses delivered has also been prepared and follows the quotations.

Besides comment upon the credit and earnings situation, which on the whole remains the same, the reports contain numerous items of special interest, such as the following:

Industrial banks in Brooklyn complain of the competition of commercial banks for co-maker and other personal loans.

A good many banks which have been buying insured mortgages on property in distant communities appear to be growing apprehensive because the servicing of such mortgages must be left in outside hands.

A bill has been introduced in the Iowa legislature which would require that checks drawn on State banks be cleared at par.

Some country banks in the west are having difficulty in adjusting themselves to the provisions of the Wages and Hours law, the disposition being to shorten working hours rather than increase costs.

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

BOSTON

Boston reported no visits were made to banks in January.

NEW YORK

Bronx, Kings, Queens, and Richmond Counties

A number of savings bankers report that the amount of new mortgages taken in 1938 has not been sufficient in volume to offset the repayment or amortization of existing mortgages, with the result that some of the present mortgage accounts show a net decrease during the past year. It is also said that the arrearages in taxes and interest are decreasing and that foreclosures have lessened to a considerable extent. The amount of real estate held by the savings and commercial banks combined is not large in proportion to their total deposits, and several bankers comment that they have been able to dispose of considerable other real estate during the past several months. Until recently the managements of many savings institutions have been rather lenient in bringing about foreclosures, but several bankers indicate that they are now adopting a more drastic attitude on delinquencies because of the improved condition of their mortgage accounts and of other real estate owned.

The three independent industrial banks located in Brooklyn grant loans predominantly on a co-maker basis, although it is said that many are secured by additional collateral consisting of life insurance policies, assignments of rents, chattel mortgages, etc. Ordinarily the rate charged is 6 per cent plus a service charge as permitted by law. The officers of these institutions, however, complain that most of the commercial banks and branch bank offices in their section are competing in the personal loan field and that some of the larger banks are making loans of this type at rates as low as 3-1/4 per cent. The presidents of all three banks comment that the losses taken by their institutions during the last several years have been negligible, being only a small fraction of 1 per cent. One of these bankers expressed the opinion that the customers' paper handled by his bank is of better quality than that in the portfolios of a majority of the commercial banks, and that the loss on the type of earning assets handled by his and other industrial and Morris Plan banks was less throughout the depression period than was the case with many other forms of bank credit.

Officers of one of these industrial banks (capital funds $491,000 and deposits $960,000) expressed an interest in membership in the System and indicated a desire to call at our bank at an early date to discuss the subject with our officers.

Delaware and Otsego Counties

Loans and discounts aggregate $11,075,000 showing a net decrease of $225,000 since our last visit although seventeen of the

twenty-six banks showed a slight increase. The present demand for credit is chiefly from school districts and municipalities. Some bankers point out that their loan portfolios have shown a downward trend over a period of several years although efforts have been made to expand loans through the financing of automobile sales and granting of personal loans. One bank has maintained a satisfactory total through soliciting loans under Title I of the National Housing Act for enlarging or building new silos to care for a bumper corn crop. There have been few Federal Housing Administration mortgages granted in these counties but several banks have purchased such insured mortgages from outside sources and a few others are considering similar purchases. A 6 per cent rate is obtained quite generally on all loans excepting those to school districts and municipalities, on which the rates vary from 3-1/2 to 5 per cent. In connection with the latter loan rates numerous bankers mention that they have been required to lower their rates as a result of active solicitation of this class of loans by the banks in Albany which quoted a 3 per cent rate.

Erie and Niagara Counties (Buffalo Branch Territory)

Officers of banks, especially in the rural sections, report earnings for 1938 as fairly satisfactory, although in a number of instances charge-offs materially reduced the net profits. The banks in general, particularly the larger institutions, continue to carry cash well in excess of their requirements, and a number of bank officers comment on the problem which confronts them in attempting to convert these funds into earning assets. In some instances funds have been placed in call loans on which a return of 1/2 per cent is received. Some commercial paper has recently been purchased by a number of the banks on which a return of 5/8 to 3/4 per cent is reported.

During the visits with the officers of member banks, the subject of check collections was discussed and several suggestions were made which will save time in the preparation of their cash letters. The officers of a number of state member banks commented favorably about the new ruling of the Board which will become effective at the next call date with respect to discontinuing the duplicate publications of the reports of condition.

In the eight counties visited, there are eighty-four commercial banks, sixty-eight of which have issued preferred stock, capital notes or debentures aggregating $25,745,000 par value. Up to the present time twenty-two have paid off their entire issues amounting to $14,540,000, thirty-three have made partial redemptions aggregating $2,343,767 and thirteen have not retired any - leaving

forty-six banks with a total still outstanding of $8,861,233 par value, retirable at $9,201,233, reflecting a redemption premium of $340,000.

PHILADELPHIA

The area (northeastern Pennsylvania) covered by this report depends upon agriculture, industry, and mining. Conditions in the several communities vary from poor to fair, farming sections showing a greater stability because of the year-round income from dairying, the most important phase of agriculture. In most farming communities crop yields were said to have been good during 1938, but prices received were too low to afford satisfactory profits.

Three major railroads, the Lehigh Valley, the Erie, and the Delaware Lackawanna and Western, have shops and yards at various cities in this area which when working steadily contribute much to the prosperity of the respective cities. Reduced activities at these shops have been a severe blow to the two smaller communities and have contributed to the unemployment situation in Scranton, the largest city in the area covered. Railroad activity depends to a large extent upon the output of coal and greater operation of the mines will result in increased employment for railroad workers.

Extraction of coal is at a low point for this season of the year. The larger mines are nearly all on a part time schedule. The independent operators, however, are working fairly well, but they employ only a small proportion of the available miners. The recent cold weather has caused some increase in mine operation and a sustained period of similar weather will greatly benefit the anthracite field.

Manufacturing activity appears to have increased somewhat since July and because of this, better conditions prevail in many communities.

Total resources of all banks visited show an increase of about $2,750,000 since July. These banks, particularly those in strictly farming or residential communities, have a preponderance of savings deposits, the total of such deposits aggregating about 70 per cent of all deposits.

While most of the banks charge 6 per cent for loans, there is ample mortgage money available at 5 per cent and many banks will grant loans at less than 6 per cent where the risk warrants.

The real estate market continues in the doldrums. In several of the smaller communities rentals nearly exhaust the supply

of available houses but such a condition has not stimulated new construction.

A concerted effort was made to induce bankers to make greater use of the services of the reserve bank, particularly for the collection of checks, but even though they were offered the opportunity of forwarding checks to us under two availabilities, little more than passing interest could be aroused. Long established correspondent relationships and a disinclination to defer availability are the reasons most frequently given for not making changes in present methods. Many bankers consider the keeping of transit and deferred credit accounts to be a "bother". They contend that they get as good service sending all, or at least the deferred items, to correspondents and taking credit in the correspondent account immediately.

CLEVELAND

The rate of interest which member banks may pay on time and savings deposits appears to be a matter of increasing importance to banks, most of whom feel that current rates (2 to 2-1/2 per cent) are too high in view of the inability to lend funds and the low coupon rate on bonds. In numerous communities, and sometimes in entire counties, action looking to lower rates is blocked by one institution which refuses to lower the rate, with the result that the other banks are "bluffed" into maintaining a rate which admittedly they cannot afford to pay. This is in spite of experiences in many communities where similar conditions have existed and the majority of banks reduced rates without appreciable loss, and in some cases no loss of deposit accounts. Also, as usual in such cases, bankers are hopeful that the Board of Governors will by regulation require banks to do that which they themselves lack the courage to do.

A dearth of local loans and unsatisfactory investment yields is encouraging many banks to invest in insured F.H.A. mortgages at points, in some cases, hundreds of miles away from the location of the bank. An increasing number appears to be more and more apprehensive of the desirability of this practice in view of the fact that the servicing of such mortgages is in outside hands.

In cases where the question has been raised we have suggested to member banks that the responsibility of the servicing agent is a factor worthy of most careful consideration before investment in out-of-town loans, particularly if the mortgages thus acquired are on properties some distance away.

This emphasizes the difficulty which many country banks are today experiencing in their desperate attempts to make earnings. Country banks cannot remain highly liquid and continue to exist.

A number of the smaller industrial towns in the east central portions of the State of Ohio are faced with serious problems in the shut-down of local mills resulting from what appears to be a tendency of a number of the larger industrial units to centralize their operations in larger and more economical modern plants. The problem is a serious one particularly to banks which have substantial amounts invested in local mortgages on properties of employees of these mills.

Despite a vigorous campaign by the Ohio Bankers Association for the inauguration of service charges on commercial accounts as a means of providing needed revenue, banks in not more than about half the counties in the State are today levying service charges. It is noticeable that a lack of disposition to install service charges appears to center in the same sections that are fearful of reducing interest rates.

Bankers in some communities are beginning to see the light in the matter of reducing the going rate on loans. One bank in the State of Kentucky has recently increased its loans from $310,000 to $423,000, which they attribute largely to reduction in the rate from six to five per centum.

There appears to be a greater degree of interest in membership on the part of banks visited during the month of January than has been true for some time. The principal deterrent in the State of Kentucky is that membership would increase reserve requirements since under the terms of the Kentucky law reserves required to be maintained by Kentucky State banks were the same as the reserve requirements of member banks immediately prior to the passage of the Banking Act of 1935. In other cases "other real estate" is the principal stumbling block.

RICHMOND

Southern Maryland

Banks in Charles, St. Mary's, and Prince George's Counties report, with one exception, but slight expansion of loans and of deposits. In an effort to expand earning assets banks have recently shown an increased, if belated, interest in FHA loans. While banks in other and adjacent counties entered this field earlier and secured the more desirable loans, the banks in these counties feel that desirable loans are still sufficiently available to justify their undertaking this type of credit operations. One bank, which entered the field more than a year ago, has financed approximately $1,000,000 of FHA mortgages. Of this aggregate the proportion retained exceeded the legal limits, but the bank had no difficulty in disposing of the excess at a premium of two points.

Even though there has been a decline of earnings because of the reduction of corporate issues in bank portfolios, bankers do not seem to be pessimistic about earnings. The larger earnings of former times were largely absorbed by losses experienced with corporate bonds. Bankers now feel that adequately secured assets, even though earning less, are to be preferred to the former state of things. Local loans are made at 6 per cent and there is firm opposition to any reduction. In certain instances mortgage loans have been made at 5 per cent. The rate on time deposits is 2 per cent and this is generally the case where the loan rate is maintained at 6 per cent.

Baltimore

Banks are placing new emphasis on the expansion of mortgage loans. To this end, terms with respect to both rates and maturities have been made more liberal, although the valuation process is not as broad as that of FHA. Savings banks have long regarded mortgage loans, particularly those on residential property, as one of their distinctive functions. For that reason they do not look with much favor on loans made under the FHA plan. Such loans are considered likely to lead to over-expansion of credit, thus producing a condition which mutual savings banks view with much disfavor. Rates on mortgages range from 4 per cent to 6, with the bulk at 5.

Eastern North Carolina

Bankers in Edgecombe, Wilson, Johnston, Harnett, and Robeson Counties seemed to think that tobacco acreage will be increased from 15 to 20 per cent this year. Although some of those interviewed dislike crop control as a principle, every one thought the farmers made a mistake in voting against tobacco control just after it had proved successful in 1938. It was thought that a large part of the vote against control

was contributed by small farmers who wanted to plant a few more acres.

Central South Carolina

Banks in Lee, Darlington, Sumter, Kershaw, and Clarendon Counties experienced a tendency for deposits to increase, for loans to decrease, and for investments to increase in 1938 relative to 1937. There is no disposition on the part of banks to encourage the growth of time deposits and few banks pay as much as 2 per cent on balances, regardless of amount. Loans on cotton with commitments from the Commodity Credit Corporation are considered very desirable but, like other desirable loans, are difficult to obtain in this section. Hence, there is much uneasiness among bankers with respect to the prospects for earnings. On the whole, banks show a reluctance to meet the competition of Federal credit agencies by lowering interest rates, for the latter tend to hover around 6 and 7 per cent, with but few rates as low as 4 or 5.

It is difficult to appraise the outlook for economic conditions in South Carolina in 1939. It is true that there is much distress among planters because of the pressure to shift from a highly developed one-crop type of agriculture to a more diversified agriculture in a relatively short time. It is also true that most textile manufactures have not been able to operate profitably and, with textile prices at present levels, inventories tend to accumulate. Unless this situation improves there will be less absorption of the unemployed released by farms rather than more.

Another factor that must be taken into account is the outlook for tobacco. Crop control for the latter was rejected at the referendum, and it is believed that the small farmers, desirous of expanding their acreage, were responsible for this. It is also believed that more tobacco will be planted in 1939, but there is much difference of opinion as to the effect on prices. However, it is generally believed that prices are likely to fall much below the 1938 level.

ATLANTA

Birmingham, Alabama

During the month of January visits were made to the member banks in Birmingham, Alabama. The president of one of the Birmingham banks reported a fairly satisfactory business activity in the Birmingham area, stating, however, that the activity far outruns the profits in most lines of business. According to this banker, the extent to which the disbursement of Federal funds, or the lending of Federal funds, is responsible directly or indirectly for the increased activity lends much uncertainty to an appraisal of the current situation. Deposits

have considerably increased; there is a little greater demand for money, and the banks are to a limited extent becoming educated in the direction of adding to their portfolios what are called, for the want of a better term, amortized loans. In the opinion of this banker this field offers possibilities for increasing the volume of loans during 1939.

Southeastern Louisiana

A representative of the New Orleans Branch visited three member banks and four nonmember banks which comprise the membership of the Southeastern Louisiana Clearing House Association. The bankers interviewed appeared to be satisfied with the progress made by their institutions during the year 1938 and, in view of the present prospects, were found to be enthusiastic for the future. They appeared to be aggressive and anxious to take advantage of every opportunity to make loans wherever repayment might be reasonably assured. The members of the Southeastern Louisiana Clearing House Association are considering the adoption of a standard schedule of service charges. The service charges now in effect are fixed by each bank individually, and although moderate, have supplemented the earnings of the banks to a material extent.

CHICAGO

The bankers' associations of Illinois, Michigan, and Wisconsin held their mid-winter meetings in January. The principal talks and discussions centered about legislative programs, public relations, and fields for new loans with particular reference to personal and F.H.A. loans.

Favorable comment was made by a number of banks as a result of the newspaper release relative to the introduction of a bill by Senator Gillette which would place National banks on an equal footing with State banks in so far as the establishment of branches is concerned.

In the Iowa State Legislature, a bill has been introduced which would provide that checks drawn on any State bank must be cleared at par by the bank on which they are drawn. Violation of the provision would be deemed a misdemeanor punishable by a fine of from $10 to $100. The bill would be effective immediately upon enactment and publication.

The following resolution has been approved by a number of the County Farm Bureaus in Iowa, and we are informed was recently adopted by the Iowa State Farm Bureau:

"We believe that the present confused system of

Federal examination of banking can be improved and the whole credit structure be made much more efficient by consolidation of the powers and duties of bank examination on the part of national agencies in a single one and that that agency should be the one having rediscount power."

Reports from bankers at La Porte and Gary, Indiana, indicate an improved employment situation. At La Porte, a large farm implement manufacturer is increasing the number of employees due to larger production. At Gary, the prospects are that the steel mills will be taking on another 3,500 men in the course of the next few weeks.

No particular criticism has been heard. However, in discussing membership with the officers of one large bank, the Cashier stated that both he and the President were in favor of joining the System, but that several of their outstanding directors who are prominent business men have taken a very definite stand against it, because of their experience in their own businesses, in which they have been severely handicapped by the multiplicity of reports required by Government agencies, and they believe that membership of the bank in the System would entail more work for the bank in preparing reports.

ST. LOUIS

During the month our officers and field representative visited 89 banks in Arkansas, 11 in Missouri, and 4 in Illinois.

The area visited is principally devoted to agricultural pursuits, though containing a broad variety of other activities, including oil production, lumber, mining and manufacturing. The principal crop is cotton. Results to producers of this staple in 1938 were as a whole unsatisfactory, owing to smaller acreage, and the low level of prices prevailing throughout the season. Many farmers endeavored to augment their incomes by raising other crops, but their incomes fell measurably below those of the preceding year. Some bankers and merchants are dubious as to the outcome of cotton in 1939, owing principally to the enormous carry over.

There has been a notable increase in raising and conditioning livestock for market. There has also been considerable expansion in milk production for sale to dairies, and in production of poultry and eggs. These operations have proved fairly profitable, and furnish an outlet for large quantities of corn and other feed supplies. Large quantities of corn are going into the Government corn loan in surplus producing sections.

Despite the low level of prices of farm products and other discouragements, the morale of the farming communities as a whole is

fairly good, and farmers are preparing for next season with some degree of optimism. It is evident that diversification will be practiced to a greater extent than heretofore. In some counties in Arkansas and Southern Missouri experiments are being made with soy beans, which have proved profitable for soil building and as a revenue producer in Illinois and elsewhere. Smaller acreages will permit of more intensive cultivation and increased use of fertilizers, which, according to one banker, will defeat the smaller output program by heavier yields per acre.

Fruit culture is important in northern Arkansas, but due to unfavorable marketing conditions, lack of facilities and partial failures occasioned by weather and insect pests, results were decidedly disappointing in 1938. The mild winter has been beneficial to orchards, which are for the most part in excellent condition. Acreage of strawberries, an important cash crop, will be increased over last year, when plants were badly damaged by freezing.

Trade and industrial conditions in the territory covered are somewhat spotty and uneven, but on the whole gratifying. Marked betterment took place during the last half of 1938, and in January this year the situation as a whole shows decided improvement as contrasted with the same month in the preceding year. Reports relative to holiday retail business indicate volumes for the most part up to expectations. During the past several months, industrial operations have been helped by the settlement of a number of scattered and isolated strikes.

As a whole, deposits of banks in the area covered increased during 1938. Mindful of past regrettable experience, many banks, particularly small country banks, have a distinct aversion to investments in corporation bonds, and are confining their purchases to Government, Government agency and State and municipal issues. Commodity Credit Corporation and FHA notes are looked upon with quite general favor. A very considerable part of the earnings of nonmember country banks was derived from service charges and exchange on checks.

Demand for crop production loans was somewhat better in 1938 than a year earlier, but withal by no means good. Outlook for such loans in 1939, according to a number of bankers interviewed, is definitely better than early in 1938. There are general complaints of competition of Government agencies in securing production loans and other agricultural business. Throughout the present season there has been an excellent demand for funds to purchase livestock and to condition cattle and hogs for market. Bankers are disposed to encourage in every way possible the purchase of farm animals and feeding operations.

Favorable comment has been received from officers of both member and nonmember banks concerning two radio broadcasts regarding the Federal Reserve System. They were in the form of interviews of officers of this bank by State directors of the National Emergency Council. Circular letters announcing the broadcasts were mailed to all banks and to others in this district who might be interested. On January 19, over Station WHAS at Louisville, Kentucky, Frank D. Rash, Managing Director of our Louisville branch, was interviewed, and on January 26, Wm. McC. Martin, President of this bank, was interviewed over Station WIL at St. Louis. Copies of the script used were requested by several bank officers, as well as the Editor of Banking, the journal of A. B. A.

MINNEAPOLIS

Banks in Minnesota, in lieu of so-called group meetings which were heretofore held semi-annually, are holding regional clearing house meetings quarterly. These meetings are strictly business sessions, except one, when invitations are extended to Twin City correspondent banks. It is felt that closer cooperation on service charges, interest rates, etc., will develop from these informal gatherings. Attendance at several of these business sessions during the past few months disclosed the fact that the principal topic of conversation is the Wage and Hour Law. This law has definitely changed the small country bank's opening and closing hour to 9:00 in the morning and 3:00 in the afternoon. This legislation, however, has not resulted in any increased bank employment.

In discussing membership with a non-par State bank, which is considering coming into the System, a most interesting slant was given by its executive officer, who said in part:

> "If I become a State member bank, I shall be deprived of some earnings through membership because of loss of exchange revenue. Nevertheless I would consider the revenue which I would lose equivalent to a premium on an insurance policy issued by the Reserve bank, the terms of which would provide that if I continue to operate my bank on a sound basis, every asset in an emergency could be converted immediately into cash."

Mid-winter Conference, Wisconsin Bankers' Assn., Milwaukee, January 23-25, 1939.

Six hundred and fifteen bankers were registered and over seven hundred attended the banquet.

The cashier of a National bank urged country bankers to be more fearless in making chattel mortgage loans on dairy cattle. He recommended the installment method of payment with cream check assignment, and stated that his bank had had no loss in this class of business. He appraises dairy cattle at $50 a head and horses at $75 a head, and plans on not lending more than 50 per cent of the appraised values. He stated that a banker should be as much criticized by his stockholders for the hidden loss due to leaving an excessive amount of cash idle and sacrificing the interest income as he would be criticized for taking losses on loans or investments.

The new policy of the Federal Land Bank of St. Paul to press more actively for the sale of its lands in northwestern Wisconsin at sacrifice prices is causing a great deal of bitterness among the bankers of those counties, who claim that land values and the morale of mortgagors are being destroyed by this policy.

It was reported that one nonmember bank in this district would very much like to join the System, but is prevented from doing so because it is operating a filling station branch, and is not large enough to comply with the $500,000 capital section of the Law governing Federal Reserve membership with branches. Filling station branches were discussed with several bankers. It seems to be the general opinion that it is a mistake to establish filling station branches in most instances, since the same amount of deposits could be secured without them, but that, having established the branches, it would be most difficult to discontinue them on account of the adverse public reaction in the affected communities.

KANSAS CITY

About 110 visits were made to banks in January and these visits brought to light a great variety of conditions. Some banks are operating very profitably while others are not; some report a rather brisk demand for loans but in other communities there is no local outlet for surplus funds. Business and farm conditions are badly spotted with the result that some bankers are hopeful while many are not.

Quite a little interest was found in the question of membership. There are a number of banks that will likely apply for membership in the near future and a much larger number that seem definitely interested but will wait on account of various matters. A few small banks think they should be permitted membership with their present capital. Others believe that present reserve requirements are too high for country banks. These banks take the position that the problem of excess reserves is one having to do with financial centers and that a policy of manipulating reserves should be more flexible. In other cases eligible banks feel that city correspondents serve their present needs.

A rather active demand is reported for loans to buy livestock. This is especially true of cattle as there is an enormous amount of pasture feed going to waste. The general opinion is that there has been a marked increase in the number of hogs and cattle, although it will be a few days yet before the figures of the Department of Agriculture for livestock numbers on farms are available to confirm these impressions. Bankers are actively encouraging more livestock and row crops and less wheat. At the same time it is realized that prices are relatively high and that more livestock will probably bring lower prices.

Nebraska bankers are especially active in regard to livestock. The executive committee of the State Bankers' Association has endorsed a recommendation that banks make "full value" loans for the purpose of buying breeding animals. A poll of the membership of the Association is also being made to obtain a decision on a proposal to form a special corporation to make loans in cases where banks cannot function effectively. A proposal has also been made that each bank contribute $100 to a revolving fund for some such purpose. There is a disposition on the part of some, however, to make haste slowly. There is some fear that "too vigorous a campaign might result in an overstuffed hog population in the state at the bottom of a price cycle." The opinion is general also that if there was any assurance that Nebraska would have a good corn crop next season, ample funds would be available for all competent farmers.

There continues to be much grumbling about the competition of Governmental lending agencies. In many communities it is said some of these agencies are especially aggressive in actively soliciting loans. A good many banks appear to be meeting this competition with a reasonable degree of success while others are not. This competition, in conjunction with the tendency of interest rates to approach the vanishing point, is causing much concern as to the future of the small bank. Bankers are also wondering about Government bonds. Some of them tend to look upon their investment in Government bonds as virtually a frozen asset.

In many country banks deposits appear to be slowly declining. A few banks are increasing their commitments in FHA loans and are enthusiastic about them. A good many machinery and implement loans are being carried over due to the poor wheat crop and low prices. One bank that has pushed automobile loans for fourteen years reports losses of only $300 in that time.

There is much dissatisfaction with the oil restriction program in Kansas. For instance, one new well that has a daily capacity of 1,200 barrels is permitted to produce only 21 barrels a day. In many cases the proration quota is only one-half of one per cent of the

potential. In parts of Kansas where there was a big oil play last year it is reported that some of the large oil companies are forfeiting leases through nonpayment of rentals.

The wage and hour law is giving some banks trouble. In most instances the period that banks are open is being shortened. In some cases country banks are now closed from 12 to 1:30 o'clock. There is some discussion of the feasibility of closing for a half day near the middle of the week. The disposition is universal to restrict service to the public rather than permit the law to increase costs of operation.

DALLAS

Banks visited in January included eighteen member banks and three nonmembers located in four counties of South-Central Texas, where cotton farming and stock farming are the predominant activities.

Deposits of the visited banks are at a seasonal peak and their loans are at the usual seasonal "lows". A small cotton crop was produced last year, but favorable weather conditions resulted in a heavy production of other crops, particularly feedstuffs, and as a result the farms are well supplied with feed for the current year, which assures the production of the 1939 cotton crop at a minimum of expense and borrowed money.

The abundant supply of feed on hand and the recent distribution of AAA subsidies among the farmers presage a more moderate demand for loans this year. In this area, as well as elsewhere throughout the district, banks are turning to the field of consumer credit for the purpose of augmenting earnings.

They were unable to offer any ideas as to how the Federal Reserve System could broaden or improve its services to member banks. The president of one country bank having deposits of $400,000 stated that he doubted the wisdom of resuming our former custom of holding annual meetings of our stockholders. He said that the purposes which such meetings were designed to accomplish could be more effectively achieved through the medium of the individual visitations of member institutions by our officers, such as we are now making as a regular practice.

One of the nonmember banks visited by our representative has a membership application now pending. Although the other two nonmember banks contacted by our officers displayed a cordial attitude, they seemed disinclined to discuss the reasons why they have not applied for admission to the System. The president of one of them remarked that his bank would probably be compelled to seek membership in 1941

under the present provisions of deposit insurance laws. It is believed that action on the part of this particular nonmember toward affiliating with the System is being deferred pending a further improvement in its asset position.

No comments or criticisms of general interest were offered by the interviewed banks except occasional expressions of disapproval of the Patman Bill and of the continued heavy expenditures of the various relief agencies.

SAN FRANCISCO

San Francisco reported only a few bank visits in January and little comment upon them.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

JANUARY - 1939

Federal Reserve Bank	Visits to Banks			Meetings attended		Addresses made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	--	--	--	3	1/	2/ 3	563
New York	82	61	143	11	3,227	1	45
Philadelphia	58	18	76	--	--	1	45
Cleveland	41	21	62	5	986	1	80
Richmond	39	25	64	7	1,941	1	26
Atlanta	12	4	16	1	160	--	--
Chicago	6	4	10	4	1,842	1	100
St. Louis	29	75	104	1	700	2	Broadcast
Minneapolis	18	12	30	5	1,786	1	32
Kansas City	30	79	109	5	995	4	930
Dallas	19	3	22	1	160	1	26
San Francisco	6	1	7	12	648	2	Broadcast

1/ Attendance not reported.
2/ Including one broadcast.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 3, 1939.

Dear Sir:

There is enclosed for your information a copy of a letter which the Board today is sending to Mr. Harrison, Chairman of the Presidents' Conference, requesting him to place on the program of the forthcoming Presidents' Conference a question as to whether and to what extent figures of expenses and volume of operations from which the unit costs may be readily computed should be published.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT CHICAGO AND NEW YORK

March 3, 1939.

Mr. G. L. Harrison,
Chairman, Presidents' Conference,
c/o Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Harrison:

As you know, it is the present practice of each Federal Reserve Bank to publish annually a report to stockholders. While the reports are not entirely uniform, most of them include a statement of condition as of the end of the year, a summary statement of earnings and expenses during the year, and a list of the officers and directors of the bank. The reports issued by two of the Reserve banks, however, contain statements which show the cost of conducting the operations of the bank during the year, by functions, and the number of items handled in each function. Another Federal Reserve Bank has in mind publishing a pamphlet containing similar information which it proposes to distribute principally by giving it to visitors that are shown through the bank from time to time.

The publication of figures of this nature enables one readily to compute certain unit costs and, since the figures are published by more than one Reserve bank, to make a comparison of unit costs between banks. The Board has some doubt as to whether it is advisable to publish the information in a way permitting such comparisons to be made unless we are prepared to publish similar information in a uniform manner for all Federal Reserve banks. Accordingly, it will be appreciated if you will place this topic on the program of the forthcoming Presidents' Conference.

A copy of this letter is being sent to each Federal Reserve bank for its information.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

R-417

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release

March 3, 1939.

The Board of Governors of the Federal Reserve System today announced the appointment of Alfred H. Williams, Dean of the Wharton School of Finance, University of Pennsylvania, Philadelphia, Pennsylvania, as a class "C" director of the Federal Reserve Bank of Philadelphia for the unexpired portion of the term ending December 31, 1941.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1939.

Dear Sir:

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

NUBEFF - Treasury Bills to be dated March 8, 1939, and to mature June 7, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-419

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1939.

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes from February 1 to February 24, 1939.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
February 1 to February 24, 1939.

Federal Reserve Notes, Series 1934.

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

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

R-420

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers
of Monday, March 13, 1939.

March 11, 1939.

Statement of the Board of Governors on proposals to maintain prices at fixed levels.

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

March 6, 1939.

PROPOSALS TO MAINTAIN PRICES AT FIXED LEVELS

From time to time the Board of Governors of the Federal Reserve System is asked to give its opinion about proposals to require some agency of the Government to raise the general level of prices and then to keep it constant. Some would make it the duty of the Board to do this and some would create a new agency for the purpose. All would require that prices be controlled by regulating the amount and cost of money.

Those who favor such proposals believe that prices can be raised by increasing the supply of money, that prices can be lowered by reducing the supply of money, and that prices can be kept fairly steady by changing the supply of money in the right direction at the right time. They believe that, if prices were kept fairly steady, we would not have booms, depressions, and panics, business would run along on an even keel, and much suffering and hardship would be prevented.

The Board of Governors is in complete sympathy with the desire to prevent booms and depressions, and has always considered it its duty to do what it could to help accomplish these results.

Experience has shown, however, that (1) prices cannot be controlled by changes in the amount and cost of money; (2) the Board's control of the amount of money is not complete and cannot be made complete; (3) a steady

average of prices does not necessarily result in lasting prosperity; and (4) a steady level of average prices is not nearly as important to the people as a fair relationship between the prices of the commodities which they produce and those which they must buy.

Steady prices and lasting prosperity cannot be brought about by action of the Federal Reserve System alone, because they are affected by many factors beyond the control of the Federal Reserve System.

1. Prices do not depend on money alone

Experience in recent years has shown that prices are not controlled by the amount or cost of money.

If currency alone is considered as money, the facts are clear and simple. There was $3,600,000,000 of currency in the hands of the public, outside the banks, in the middle of 1926 and about the same amount in the middle of 1929, while at the end of 1938 the amount of currency had increased to $5,700,000,000. If prices were governed by the amount of currency, prices would have been about the same in 1929 as in 1926 and would have increased sharply by the end of 1938. The facts are that the average of wholesale prices, expressed in an index number, was 100 in 1926, 95 in 1929, and 77 in 1938. From 1926 to 1929, there was no change in the amount of currency but there was a drop of 5 per cent in prices. From 1929 through 1938, there was an increase of 60 per cent in currency while there was a decrease of 20 per cent in prices. Evidently cash and prices do not move together.

It is easy to understand why the amount of currency does not control prices. Currency is not the principal means used by people in paying for what they buy. In fact, it is the small change of business. Most people keep only as much money in their pockets as they require for their day-to-day needs, such as car-fares, lunches, gasoline, and other items, and what they do not need they deposit at the banks. Business firms require currency to meet payrolls, stores to make change. Banks keep on hand only a reasonable supply to meet the demands of their customers and send the rest to the Federal Reserve banks.

Because of the way we have come to use our currency, chiefly for small payments, we cannot expect to raise prices or increase prosperity by the issuance of more currency either by the Treasury or by the Federal Reserve banks. Any surplus above the amount needed would only come back to the Reserve banks. People can always get all the currency they need so long as they have deposits to draw on.

But more than nine-tenths of the bills in this country are paid by checks drawn on bank deposits. Therefore the deposits that the public holds in banks and can use as a means of paying for what it buys, as well as the currency outside of banks, need to be considered as money. Again the facts show clearly that the volume of money does not control the price level.

The amount of demand deposits was $22,000,000,000 in June 1926, $23,000,000,000 in June 1929, and $26,000,000,000 at the end of 1938. As already stated, currency outside of banks was $3,600,000,000 in 1926 and in 1929, and $5,700,000,000 in 1938. The amount of money, therefore, was

larger in 1929 than in 1926 and larger in 1938 than in 1929. But what happened to prices? In 1929 they were 5 per cent lower than in 1926; and in 1938 they were 23 per cent lower than in 1926. This proves that factors quite apart from the volume of money, i.e., of currency and deposits together were influencing the price level.

There have been times when the amount of money and prices have changed together; but usually they have not. When they have moved together this may have been due to the fact that it takes more money to do the same amount of business when prices are high than when they are low.

Whether prices and the volume of money do or do not move together depends on many other conditions, such as weather and the size of harvests, inventions, foreign trade, Government spending, taxes, wages, and the general attitude of business. When people are venturesome and expect good times, they lay in supplies and this tends to raise prices. When people are discouraged and expect things to go badly, they tighten their belts and buy as little as possible. The demand for goods declines and prices fall. Usually other things have a greater influence on prices than has the amount of money.

Neither do prices depend on the cost of money. This also has been shown by the experience of the last 10 years. The cost of money now is lower than it has ever been at any time for which we have a record. This is true not only of the rate at which the Government can borrow, and of the rate at which large corporations can get money in the money market, but also of the rate charged by banks to their regular customers. The average rate charged by banks in 36 cities on their business loans was around 5 per cent in 1926; it rose to over 6 per cent in 1929, and fell to 3-1/4 per cent in 1938. Federal

Reserve discount rates in 1926 were 3-1/2 to 4 per cent; in 1929, 4-1/2 to 6 per cent. In 1938 rates were 1 to 1-1/2 per cent. During this period when the cost of money was so drastically cut, prices went down by about one-fourth.

In view of these facts the Board finds it impossible to believe that prices can be controlled by changes in the volume and cost of money.

2. Federal Reserve cannot completely control amount of money

The Federal Reserve System, furthermore, does not and cannot have complete control of the amount of money and its use. It has an influence on the amount and when other things are favorable this influence can become effective, but there are many occasions when the System's powers are limited.

As already explained, currency is not the most important item in our business life, and the Federal Reserve System supplies at all times the currency that the public demands. If the Reserve System should engage in so-called open-market operations, that is, if it should buy Government bonds, and if it should pay out Federal Reserve notes for them, as has been proposed in some of the bills before Congress, this currency would come right back to the Reserve banks and would serve no useful purpose.

The Federal Reserve System has more influence on the amount of deposits than it has on the amount of currency, but there are limits to the System's influence. The System has power to give the banks more reserves by buying Government bonds. The sellers would receive checks which they would deposit in their banks. The banks in turn would deposit these checks in the Federal Reserve banks, thus increasing their balances which under the law are the member banks' legal reserves.

At a time when things are going well and there is a demand for as much bank credit as the banks can supply, increasing the reserves of the banks will usually increase the amount that they are willing and able to lend or invest. As the banks lend or invest the money they can pass on to the public not only the amount of unused reserves that they have, but all the banks together can pass on several times the amount of these reserves. This is because the banks are required to keep as reserves only a portion of their deposits. The proportions are different for different classes of banks; but, at the present time, all the banks together can lend or invest about six times as much as their reserves. (A detailed explanation of the way this works was given in the Board's Annual Report for 1936.)

When conditions are such that banks lend or invest all the money they can, the Reserve banks by buying $1,000,000 of Government securities can enable the banks to increase deposits held by the public by $6,000,000. Conditions, however, are not always such as to bring this about. They have not been so for a number of years. The Federal Reserve banks have bought more than $2,500,000,000 of Government securities. There has been a large inflow of gold from abroad, and the reserves of our banks have increased from about $2,700,000,000 in December 1933 to $9,000,000,000 in January 1939. Deposits of banks, however, have not increased in anything like the same proportion; because the banks have not found it possible to use all the reserves they held. At this time they have about $3,500,000,000 more reserves than the law requires and are not finding any way to use these reserves.

The Federal Reserve System can see to it that banks have enough reserves to make money available to commerce, industry, and agriculture at low rates; but it cannot make the commercial banks use these reserves, it cannot make the people borrow, and it cannot make the public spend the deposits that result when the banks do make loans and investments.

3. Steady prices do not assure prosperity

Even if the amount of money did determine prices and even if the Federal Reserve System could determine the amount of money, experience shows that steady prices would not necessarily mean prosperity.

It is true that violent changes in prices are harmful. A very rapid rise in prices results in speculation, in accumulation of inventories and in unsound undertakings, which later result in a collapse with falling prices, failing business, and general distress.

But that does not mean that lasting prosperity is assured when prices are steady. We had fairly steady prices from 1921 to 1929; but during that period there was developing a speculative situation which led to the collapse in 1929. It was during this period that billions of unsound foreign loans were made; that expensive and unsoundly financed apartment houses and office buildings were erected far beyond the needs of the people; that stock prices rose to fantastic levels. It was during this period that the ground was prepared for the depression which began in 1929 and from which we have not yet completely emerged. An unchanged average of wholesale prices alone, therefore, does not assure the people of lasting prosperity. While prices are stable, destructive forces may be at work that lead to panic and disaster. To require the Board to be guided in its policies entirely or principally by changes in the level of prices would prevent it at times from doing its best to serve the public interest.

4. Relations of prices more important than average prices

One reason why steady average prices do not assure prosperity is that the average can be steady while prices of some of the commodities that make it up change violently. People are more interested in the relation between the prices of what they produce and sell and the prices of what they buy and use than in the general price level. A farmer is interested not only in what he can get for his products over and above the cost of production but also in what he has to pay for the things that he needs to buy - how many bushels of wheat or pounds of cotton it takes to get a suit of clothes or a new plow. For the industrial producer the cost of his raw materials and labor compared with the prices that his products will fetch is what counts. To a wage earner or salaried man the important thing is the relation between his income and the cost of living. Even the ability of people to pay their debts does not depend so much on the average level of prices as upon the amount by which their net income exceeds their living expenses.

A steady average of prices, furthermore, may cover up sharp movements in prices of important commodities upon which large sections of the country depend. For example, from March to September 1937, while the average of wholesale prices was steady, grains declined by 19 per cent and cotton by 38 per cent. Many people are misled by averages. At the present time, with the average of all wholesale prices at 77 per cent of the 1926 level, prices of farm products are at only 67 per cent, while industrial commodities are at 80 per cent. Even prices of different farm products differ widely. Cotton and grain prices are 50 per cent of the 1926 level, while livestock prices are 80 per cent.

An attempt to maintain a steady average of prices would run into serious difficulty in years when prices of some commodities were forced up by drought, armament demand, or other things beyond the control of the monetary authority. When prices of industrial materials advanced in 1936-1937, a steady average of prices could have been maintained only if prices of finished products had declined, and if that had occurred, it would have made it unprofitable to buy materials on a rising market with the prospect of selling finished products on a falling market. This would have resulted in a slowing down of industrial and building activity. Differences between price movements of raw materials and finished products were, in fact, an important reason of the turn down in business in 1937.

Summary

To summarize, the Board of Governors is in complete sympathy with the real purpose of the price-stabilizing bills, which is to prevent booms and depressions and have business always on an even keel. But experience has shown that prices do not depend primarily on the volume or the cost of money; that the Board's control over the volume of money is not and cannot be made complete; and that steady average prices, even if obtainable by official action, would not assure lasting prosperity. The Board exerts all its powers to provide a constant and ample flow of money at reasonable rates to meet the needs of commerce, industry, and agriculture. In order to maintain a lasting prosperity many other agencies of the Government, as well as many groups in the general public, must cooperate, since policies in respect to taxation, expenditures, lending, foreign trade, agriculture, and labor all influence business conditions.

The Board believes that an order by Congress to the Board or to any other agency of Congress to bring about and maintain a given average of prices would not assist but would hinder efforts to stabilize business conditions. It would hinder, because the price average frequently would indicate a policy that would work against rather than for stability. Such an order would also raise in the public mind hopes and expectations that could not be realized.

Conclusion

In view of all these considerations the Board does not favor the enactment of any bill based on the assumption that the Federal Reserve System or any other agency of the Government can control the volume of money and credit and thereby raise the price level to a prescribed point and maintain it there.

R-421

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 11, 1939.

Dear Sir:

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

NUBEGO - Treasury Bills to be dated March 15, 1939, and to mature June 14, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 15, 1939.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of February 1939.

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

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT RICHMOND

R-422-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF FEBRUARY, 1939.

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	20,834	448	21,282	$ 525.09	$ 301.22	$ 223.87
New York	60,113	-	60,113	1,483.15	1,024.84	458.31
Philadelphia	17,380	450	17,830	439.92	241.67	198.25
Cleveland	26,932	456	27,388	675.74	339.07	336.67
Richmond	23,692	436	24,128	595.30	198.19	397.11
Atlanta	39,357	448	39,805	982.10	297.01	685.09
Chicago	54,691	742	55,433	1,367.69	1,366.75	.94
St. Louis	36,435	436	36,871	909.71	252.03	657.68
Minneapolis	16,056	448	16,504	407.20	185.17	222.03
Kansas City	37,066	436	37,502	925.28	259.21	666.07
Dallas	29,950	469	30,419	750.52	276.54	473.98
San Francisco	39,132	455	39,587	976.72	375.61	601.11
Board of Governors	227,733	-	227,733	5,618.81	10,539.92	-
Total	629,371	5,224	634,595	$15,657.23	$15,657.23	$4,921.11

(1) Based on cost per word ($.024672791) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies ($1,579.18) and wire rental ($8,960.74). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 15, 1939.

Dear Sir:

It is the Board's policy to furnish each member bank with one complimentary copy of the Federal Reserve Bulletin each month and additional copies only upon payment of the regular subscription fee of $2.00 per annum.

The Board is in receipt of a recommendation from the Federal Reserve Bank of San Francisco recommending that a complimentary copy of the Federal Reserve Bulletin be furnished each month to out-of-town branch offices of member banks in the Twelfth District, with a maximum of fifty copies to the branches of any one bank.

While the Board is inclined to look favorably upon this recommendation, it realizes that conditions in other districts may indicate the advisability of some other method of determining which branches of member banks will receive the Bulletin should the Board revise its policy. To assist the Board in making a decision, it will be appreciated if you will submit your recommendation in this matter.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT
SAN FRANCISCO

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release March 16, 1939

CONDITION OF MEMBER BANKS ON DECEMBER 31, 1938,
COMPARED WITH SEPTEMBER 28, 1938 AND DECEMBER 31, 1937.

(In thousands of dollars)

	Condition on —			Change since —	
	December 31, 1938	September 28, 1938	December 31, 1937	September 28, 1938	December 31, 1937
ASSETS					
Loans (including overdrafts) 1/	13,207,760	12,937,437	13,957,823	+270,323	-750,063
U. S. Gov't direct oblig.	10,882,288	10,712,818	10,574,143	+169,470	+308,145
Oblig. guaranteed by U. S. Government	2,340,243	2,298,477	1,797,407	+ 41,766	+542,836
Oblig. of Gov't corp'n and agencies not guaranteed by United States	330,879	276,671	280,280	+ 54,208	+ 50,599
Oblig. of States and political subdivisions	2,447,792	2,317,492	2,046,611	+130,300	+401,181
Other bonds, notes and debentures 1/	2,401,538	2,545,618	2,566,080	-144,080	-164,542
Corporate stocks (including F. R. bank stock) 1/	459,990	538,376	529,411	- 78,386	- 69,421
Total loans and investments 1/	32,070,490	31,626,889	31,751,755	+443,601	+318,735
Reserve with F. R. banks	8,694,388	8,192,978	7,005,209	+501,410	+1,689,179
Cash in vault	745,650	774,887	589,457	- 29,237	+156,193
Demand balances with banks in United States (except private banks and American branches of foreign banks)	4,119,695	3,817,382	3,319,785	+302,313	+799,910
Other balances with banks in United States	119,824	119,644	94,605	+ 180	+ 25,219
Balances with banks in foreign countries	50,553	73,374	69,723	- 22,821	- 19,170
Due from own foreign branches	4,196	1,261	3,578	+ 2,935	+ 618
Cash items in process of collection	1,758,709	1,460,367	2,259,351	+298,342	-500,642
Bank premises owned and furniture and fixtures	945,037	968,380	971,465	- 23,343	- 26,428
Other real estate owned	325,634	335,567	342,694	- 9,933	- 17,060
Investments and other assets indirectly representing real estate 1/	144,508	1/	1/	1/	1/
Customers' liability on acceptances	120,722	112,965	154,504	+ 7,757	- 33,782
Earnings accrued but not yet collected	100,638)				
Other assets	129,791)	207,832	182,160	+ 22,597	+ 48,269
Total assets	49,329,835	2/47,691,526	2/46,744,286	+1,638,309	+2,585,549

CONDITION OF MEMBER BANKS ON DECEMBER 31, 1938,
COMPARED WITH SEPTEMBER 28, 1938 AND DECEMBER 31, 1937.

R-424a

(In thousands of dollars)

	Condition on —			Change since —	
	Dec. 31, 1938	Sept. 28, 1938	Dec. 31, 1937	Sept. 28, 1938	Dec. 31, 1937
LIABILITIES					
Demand deposits—total	31,852,795	30,308,304	29,317,024	+1,544,491	+2,535,771
Individuals, partnerships and corporations	21,119,188	20,438,710	19,747,450	+ 680,478	+1,371,738
U. S. Government	789,816	707,267	781,034	+ 82,549	+ 8,782
States and political subdivisions	2,385,689	2,079,830	2,131,984	+ 305,859	+253,705
Banks in United States	6,510,303	6,088,093	5,436,442	+ 422,210	+1,073,861
Banks in forg'n countries	500,641	456,517	452,772	+ 44,124	+ 47,869
Certified and officers' checks, cash letters of credit and travelers' checks, etc.	547,158	537,887	767,342	+ 9,271	-220,184
Time deposits — total	11,510,343	11,462,315	11,521,632	+ 48,028	- 11,289
Individuals, partnerships, and corporations:					
Savings deposits	9,556,698	9,398,613	9,461,126	+ 158,085	+ 95,572
Certificates of deposit	702,077	724,377	740,327	- 22,300	- 38,250
Christmas savings and similar accounts	20,971	121,292	28,761	- 100,321	- 7,790
Open accounts	566,116	544,378	575,832	+ 21,738	- 9,716
Postal savings 3/	61,288	69,605	94,653	- 8,317	- 33,365
States and political subdivisions	461,512	464,427	481,721	- 2,915	- 20,209
Banks in United States	131,637	130,009	128,641	+ 1,628	+ 2,996
Banks in forg'n countries	10,044	9,614	10,571	+ 430	- 527
Total deposits	43,363,138	41,770,619	40,838,656	+1,592,519	+2,524,482
Due to own forg'n branches	143,425	117,432	117,510	+ 25,993	+ 25,915
Bills payable, rediscounts, and other liabilities for borrowed money	6,209	14,001	14,621	- 7,792	- 8,412
Acceptances outstanding	138,737	121,414	173,611	+ 17,323	- 34,874
Dividends declared but not yet payable	32,664	35,817	43,423	- 3,153	- 10,759
Income collected but not yet earned	43,649)				
Expenses accrued & unpaid	69,683)	222,359	185,290	- 944	+ 36,125
Other liabilities	108,083)				
Total liabilities	43,905,588	2/42,281,642	2/41,373,111	+1,623,946	+2,532,477
CAPITAL ACCOUNTS					
Capital	2,403,098	2,425,628	2,430,606	- 22,530	- 27,508
Surplus	2,082,726	2,046,844	2,010,421	+ 35,882	+ 72,305
Undivided profits	635,548	645,543	602,430	- 9,995	+ 33,118
Reserves for contingencies	265,345	274,395	311,355	- 9,050	- 46,010
Other reserves	37,530	17,474	16,363	+ 20,056	+ 21,167
Total capital accounts	5,424,247	5,409,884	5,371,175	+ 14,363	+ 53,072
Total liabilities and capital accounts	49,329,835	2/47,691,526	2/46,744,286	+1,638,309	+2,585,549
Net demand deposits subject to reserve	25,982,672	25,038,348	23,740,652	+944,324	+2,242,020
Demand deposits-adjusted 4/	22,293,326	21,596,060	20,387,425	+697,266	+1,905,901
Number of banks	6,338	6,341	6,341	- 3	- 3

1/ The indicated changes in Loans, in Other bonds, notes and debentures, and in Corporate stocks since prior call dates are affected by the amount of investments $94,569,000 and other assets $49,939,000 (principally loans) indirectly representing bank premises and other real estate, which are now reported and shown separately.
2/ Revised to exclude acceptances of other banks and bills sold with endorsement, which are now reported as contingent liabilities.
3/ Includes U. S. Treasurer's time deposits, open account.
4/ Demand deposits other than interbank and U. S. Government, less cash items reported as in process of collection.

ALL MEMBER BANKS — CONDITION ON DECEMBER 31, 1938, BY CLASSES OF BANKS.
(Amounts in thousands of dollars)

R-424b

	All member banks	Central reserve city member banks		Reserve city member banks	Country member banks
		New York	Chicago		
ASSETS					
Loans (including overdrafts)	13,207,760	3,262,309	538,602	4,962,906	4,443,943
U.S. Gov't direct obligations	10,882,288	2,962,971	1,004,937	4,278,074	2,636,306
Obligations guaranteed by U. S. Government	2,340,243	894,302	108,909	739,905	597,127
Obligations of Gov't corporations and agencies not guaranteed by United States	330,879	121,082	27,393	100,174	82,230
Obligations of States and political subdivisions	2,447,792	517,209	140,748	807,504	982,331
Other bonds, notes and debentures	2,401,538	404,626	118,603	610,753	1,267,556
Corporate stocks (including F. R. bank stock)	459,990	172,283	29,709	154,644	103,354
Total loans and investments	32,070,490	8,334,782	1,968,901	11,653,960	10,112,847
Reserve with F. R. banks	8,694,388	4,103,767	883,775	2,354,176	1,352,670
Cash in vault	745,650	68,247	34,572	320,553	322,278
Demand balances with banks in U. S. (except private banks and American branches of foreign banks)	4,119,695	106,771	222,527	1,885,687	1,904,710
Other balances with banks in U.S.	119,824	1,776	12,764	54,398	50,886
Balances with banks in foreign countries	50,553	34,076	1,992	11,289	3,196
Due from own foreign branches	4,196	192	—	4,004	—
Cash items in process of collection	1,758,709	579,743	119,728	786,776	272,462
Bank premises owned and furniture and fixtures	945,037	213,474	21,097	329,265	381,201
Other real estate owned	325,634	33,791	5,502	118,816	167,525
Investments and other assets indirectly representing real estate	144,508	16,906	985	97,551	29,066
Customers' liability on acceptances	120,722	89,523	2,431	27,147	1,621
Earnings accrued but not yet collected	100,638	30,896	8,391	41,580	19,771
Other assets	129,791	43,076	6,621	34,984	45,110
Total assets	49,329,835	13,657,020	3,289,286	17,720,186	14,663,343

ALL MEMBER BANKS — CONDITION ON DECEMBER 31, 1938, BY CLASSES OF BANKS.
(Amounts in thousands of dollars)

R-424c

	All member banks	Central reserve city member banks		Reserve city member banks	Country member banks
		New York	Chicago		
LIABILITIES					
Demand deposits — total	31,852,795	11,011,639	2,558,360	11,196,531	7,086,265
Indiv'ls, partnerships, and corporations	21,119,188	7,273,337	1,596,974	7,034,292	5,214,585
United States Government	789,816	139,413	83,419	424,317	142,667
States & political subdivisions	2,385,689	280,100	181,490	796,320	1,127,779
Banks in United States	6,510,303	2,687,377	657,821	2,719,227	445,878
Banks in foreign countries	500,641	436,776	9,493	52,673	1,699
Certified and officers' checks, cash letters of credit and travelers' checks, etc.	547,158	194,636	29,163	169,702	153,657
Time deposits — total	11,510,343	694,113	461,111	4,632,174	5,722,945
Individuals, partnerships, and corporations:					
Savings deposits	9,556,698	387,611	404,785	3,809,606	4,954,696
Certificates of deposit	702,077	28,075	14,718	183,946	475,338
Christmas savings and similar accounts	20,971	876	143	7,541	12,411
Open accounts	566,116	235,366	32,115	232,401	66,234
Postal savings 1/	61,288	—	—	17,284	44,004
States & political subdivisions	461,512	36,239	9,350	268,744	147,179
Banks in United States	131,637	302	—	108,252	23,083
Banks in foreign countries	10,044	5,644	—	4,400	—
Total deposits	43,363,138	11,705,752	3,019,471	15,828,705	12,809,210
Due to own foreign branches	143,425	143,425	—	—	—
Bills payable, rediscounts, and other liabilities for borrowed money	6,209	—	—	378	5,831
Acceptances outstanding	138,737	104,228	2,666	30,173	1,670
Dividends declared but not yet payable	32,664	12,654	800	11,839	7,371
Income collected but not yet earned	43,649	8,560	1,486	21,731	11,872
Expenses accrued & unpaid	69,683	15,864	7,760	29,506	16,553
Other liabilities	108,083	73,981	252	20,606	13,244
Total liabilities	43,905,588	12,064,464	3,032,435	15,942,938	12,865,751
CAPITAL ACCOUNTS					
Capital	2,403,098	548,395	126,500	796,435	931,768
Surplus	2,082,726	807,960	72,280	643,532	558,954
Undivided profits	635,548	169,635	28,747	219,812	217,354
Reserve for contingencies	265,345	63,350	28,951	105,671	67,373
Other reserves	37,530	3,216	373	11,798	22,143
Total capital accounts	5,424,247	1,592,556	256,851	1,777,248	1,797,592
Total liabilities and capital accounts	49,329,835	13,657,020	3,289,286	17,720,186	14,663,343
Net demand deposits subject to reserve	25,982,672	10,325,125	2,216,925	8,527,008	4,913,614
Demand deposits-adjusted 2/	22,293,326	7,168,330	1,687,899	7,213,538	6,223,559
Number of banks	6,338	36	13	344	5,945

1/ Includes United States Treasurer's time deposits, open account.
2/ Demand deposits other than interbank and United States Government, less cash items reported as in process of collection.

ALL MEMBER BANKS — CLASSIFICATION OF LOANS, INVESTMENTS, REAL ESTATE, AND CAPITAL, ON DECEMBER 31, 1938, BY CLASSES OF BANKS.
(In thousands of dollars)

R-424d

	All member banks	Central reserve city member banks		Reserve city member banks	Country member banks
		New York	Chicago		
Loans — total	13,207,760	3,262,309	538,602	4,962,906	4,443,943
Commercial and indust'l loans	4,732,173	1,449,781	319,233	1,915,271	1,047,888
Agricultural loans	716,521	10,768	16,770	205,456	483,527
Com'l paper bought in open market	247,829	9,039	13,071	91,886	133,833
Bills, acceptances, etc., payable in foreign countries	9,987	927	457	7,569	1,034
Acceptances of other banks, payable in United States	88,048	76,224	186	10,345	1,293
Reporting banks' own acceptances	94,730	52,269	2,399	37,950	2,112
Loans to brokers and dealers in securities	973,351	786,708	42,889	119,197	24,557
Other loans for purchasing or carrying securities	774,956	220,171	69,773	241,963	243,049
Real estate loans:					
On farm land	278,092	294	206	95,904	181,688
On residential property	1,720,434	59,395	6,768	780,827	873,444
On other properties	717,390	61,441	4,534	353,379	298,036
Loans to banks	124,785	98,905	520	19,965	5,395
All other loans	2,721,488	433,186	61,747	1,080,347	1,146,208
Overdrafts	7,976	3,201	49	2,847	1,879
U. S. Government direct obligations — total	10,882,288	2,962,971	1,004,937	4,278,074	2,636,306
Treasury bills	285,789	158,436	58,879	57,149	11,325
Treasury notes	3,388,961	1,141,923	291,453	1,223,608	731,977
Bonds maturing in 1939-1943	726,907	348,016	35,603	216,969	126,319
Bonds maturing in 1944-1948	2,453,098	580,978	133,602	1,116,869	621,649
Bonds maturing in 1949-1958	2,887,835	534,152	352,521	1,184,693	816,469
Bonds maturing in 1959 or later	1,139,698	199,466	132,879	478,786	328,587
Obligations guar't'd by United States Government — total	2,340,243	894,302	108,909	739,905	597,127
Maturing in 1939-1943	(963,157)	(490,230)	(98,433)	(227,648)	(146,846)
Reconstruction Finance Corp'n	426,961	234,820	80,149	65,018	46,974
Home Owners' Loan Corporation	1,323,848	504,754	10,562	450,981	357,551
Federal Farm Mort'g Corp'n	433,588	98,313	4,881	166,028	164,366
Other Government corporations and agencies	155,846	56,415	13,317	57,878	28,236
Obligations of Gov't corporations and agencies, not guaranteed by United States — total	330,879	121,082	27,393	100,174	82,230
Maturing in 1939-1943	(222,049)	(119,542)	(12,298)	(62,587)	(27,622)
Federal Land banks	106,440	1,034	15,147	37,101	53,158
Federal Inter. Credit banks	126,864	77,728	8,602	33,686	6,848
Other Gov't corp'n & agencies	97,575	42,320	3,644	29,387	22,224
Obligations of States & political subdivisions — total	2,447,792	517,209	140,748	807,504	982,331
In default	9,373	960	271	3,814	4,328
Without specific maturity	149,374	3,011	34,753	47,671	63,939
Maturing in 1939-1943	1,478,409	437,985	85,780	443,668	510,976
Maturing in 1944 or later	810,636	75,253	19,944	312,351	403,088

ALL MEMBER BANKS — CLASSIFICATION OF LOANS, INVESTMENTS, REAL ESTATE, AND CAPITAL, ON DECEMBER 31, 1938, BY CLASSES OF BANKS.
(In thousands of dollars)

R-424e

	All member banks	Central reserve city member banks		Reserve city member banks	Country member banks
		New York	Chicago		
Other bonds, notes, and debentures — total	2,401,538	404,626	118,603	610,753	1,267,556
In default	(89,239)	(22,450)	(1,932)	(30,307)	(34,550)
Maturing in 1939-1943	(431,610)	(82,521)	(46,238)	(138,110)	(164,741)
Railroads	786,594	128,864	22,825	185,073	449,832
Public utilities	766,456	118,977	45,017	175,578	426,884
Industrials	568,366	93,339	34,852	161,360	278,815
Other domestic corporations	97,934	13,304	1,367	38,147	45,116
Foreign — public and private	182,188	50,142	14,542	50,595	66,909
Corporate stocks — total	459,990	172,283	29,709	154,644	103,354
Federal Reserve bank	134,494	40,729	5,958	43,045	44,762
Affiliates of reporting banks	104,148	47,743	276	48,381	7,748
Other domestic banks	23,430	2,913	503	10,420	9,594
Other domestic corporations	196,175	80,436	22,945	52,119	40,675
Foreign corporations	1,743	462	27	679	575
Bank premises, furniture & fixtures, and other real estate					
Bank premises	863,883	211,870	21,013	294,628	336,372
Furniture and fixtures	81,154	1,604	84	34,637	44,829
Farm land (including improvements)	23,741	31	641	6,807	16,262
Residential properties	136,227	10,271	1,672	43,550	80,734
Other real properties	165,666	23,489	3,189	68,459	70,529
Assets indirectly representing bank premises or other real estate:					
Investments	94,569	14,544	928	61,596	17,501
Other assets	49,939	2,362	57	35,955	11,565
Capital					
Par or face value — total	2,409,770	548,395	126,500	796,435	938,440
Capital notes & debentures	47,369	556	—	25,800	21,013
First preferred stock	314,726	9,445	25,700	109,685	169,896
Second preferred stock	24,373	—	—	8,150	16,223
Common stock	2,023,302	538,394	100,800	652,800	731,308
Retirable value of —					
First preferred stock	378,550	23,311	25,700	126,978	202,561
Second preferred stock	29,662	—	—	8,550	21,112

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 17, 1939.

Dear Sir:

Several of the Federal Reserve banks have recently suggested that the Secret Service Division furnish them with the necessary number of copies of each circular describing counterfeit notes in order to facilitate the distribution thereof and to eliminate a duplication of expense. Accordingly, this matter was taken up with the Secret Service Division and the Division was also asked whether it would furnish the Reserve banks with a sufficient number of franked envelopes to make distribution of the counterfeit notices.

The Secret Service Division stated informally that at the present time the limited appropriations available to the Division make it impossible to furnish the Reserve banks with franked envelopes but that it would be able to furnish a sufficient number of copies of the circulars for distribution.

The Secret Service Division asked whether an arrangement could be worked out, whereby the circulars could be mailed directly from Washington under the Board's frank rather than through the Reserve banks, particularly since it would expedite to some extent the distribution of the circulars. Such a procedure would appear practicable and accordingly arrangements have been made under which the Board will address envelopes to all member and nonmember banks in the United States and deliver them to the Treasury Department which will insert and mail the counterfeit notices. The Board's mailing list comprises all national banks in the continental United States and all State commercial banks, trust companies, mutual and stock savings banks and such private and industrial banks as are included in abstracts issued by State banking departments. One copy of each notice will also be sent direct to each Federal Reserve bank and branch.

The replies to the Board's telegram of December 14, 1938 indicate that the distribution of counterfeit notices by some of the Reserve banks is not limited to member and nonmember banks; also, that in certain cases bulk deliveries are made to banks and others. Under the procedure as set forth above, only one counterfeit notice will be sent to each member and nonmember bank. It will be appreciated, therefore, if you will advise the Board the additional number of copies that should be sent to your bank for distribution to others than banks and to banks which have requested more than one copy.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-426

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 18, 1939.

Dear Sir:

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

April 3 (Monday) - General Election Day
Detroit

April 7 (Friday) - Good Friday

Philadelphia	Nashville
Pittsburgh	New Orleans
Baltimore	Memphis
Jacksonville	Minneapolis

April 10 (Monday) - Easter Monday
Charlotte

April 12 (Wednesday) - Halifax Independence Day
Charlotte

April 13 (Thursday) - Thomas Jefferson's Birthday
Richmond
Birmingham

April 19 (Wednesday) - Patriots' Day
Boston

April 21 (Friday) - San Jacinto Day

Dallas	Houston
El Paso	San Antonio

April 22 (Saturday) - Arbor Day
Omaha

April 26 (Wednesday) - Southern Memorial Day

Atlanta Jacksonville
Birmingham

On the dates given the offices affected will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices affected on each of the holidays with your credits for the following business day. No debits covering shipments of Federal Reserve notes for the head offices concerned should be included in your note clearings of April 7, 13, 19, 21 and 26.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, March 21, 1939.

The following ruling will appear in the Federal Reserve Bulletin:

Extension of Time by Committee of Exchange after Original Period Has Expired.

Section 3(b) of Regulation T provides that when a customer effects certain transactions in a general account the creditor must obtain the deposit of certain cash or securities in the account, and must obtain such cash or securities before the expiration of three full business days following the date of the transaction. Section 3(e) provides that if such cash or securities are not obtained within the specified period, certain liquidations must be effected in the account during the period. Section 3(f) provides, however, as follows:

> "Extensions of time.- In exceptional cases, the three-day period specified in section 3(b) may, on application of the creditor, be extended for one or more limited periods commensurate with the circumstances by any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, of which exchange the creditor is a member or through which his transactions are effected, provided such committee is satisfied that the creditor is acting in good faith in making the application and that the circumstances are in fact exceptional and warrant such action."

Section 4(c) relating to the special cash account provides that, in general, if a customer does not make full

cash payment for a security purchased by him in the account within seven days after the date on which the security was purchased, the creditor shall promptly cancel or otherwise liquidate the transaction. Another paragraph of the section specifies different periods of time for certain special types of transactions, and the section then provides:

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

The Board has recently been asked whether an application for such an extension of time pursuant to section 3(f), or for an extension of time or transfer of a transaction pursuant to section 4(c), may be approved by a business conduct committee after the expiration of the period originally applicable to the transaction.

It is the view of the Board that such an application may not be granted after such period has expired.

Thus an application for an extension of the three-day period applicable to a transaction in the general account could not be approved by the committee after midnight of the third full business day following the date of the transaction. Similarly, in the case of a transaction in the special cash account to which the standard seven-day period is applicable, an application for an extension of time or for a transfer of the transaction should be passed upon by the committee not later than midnight of the seventh calendar day after the date of the transaction. In case an extension of time has been granted for a particular transaction, any application for a further extension or for a transfer of the transaction should be received and acted upon before the expiration of the prior extension.

In order to facilitate its consideration of the applications, each business conduct committee may, of course, further limit the period following a transaction within which it will receive any such application.

R-428

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 20, 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 February, 1939, in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-428-a

March 15, 1939.

TO The Board of Governors

SUBJECT: Summary of Bank Relations Reports

FROM Mr. Hammond, Division of Bank Operations

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

Rates ranging from 1 to 4 per cent are paid on deposits in various types of banks in Fairfield County, Connecticut.

A member bank in the Cleveland district refers loans to its correspondent rather than lend at less than 6 per cent and thereby "demoralize other borrowers".

There are banks in North Carolina maintaining a rate of 7 per cent on loans; in Louisiana, 8 per cent; and in Arkansas, 10 per cent.

Vegetable canners in Maryland can borrow from warehousemen more advantageously than from banks.

There is an active and growing demand for livestock loans in the Kansas City and Dallas districts.

Some banks complain that Government lending agencies are getting their business; others are willing to forego the class of business those agencies take.

Some banks are making very satisfactory earnings while others find conditions almost hopeless.

There is a bitter feeling against deposit insurance among Kansas State bankers and many eligible banks are kept out of the System by it.

Chicago and Minneapolis report that banks are very favorably impressed by the Board's discussion of banking problems in the last annual report - its appreciation of the problems of the country banker and the non-par banker being specifically commended.

Dallas reports an increased interest in Federal Reserve membership on the part of nonmembers.

BOSTON

Boston reported no visits were made to banks in February.

NEW YORK

Fairfield County, Connecticut

There are twenty-seven commercial banks in Fairfield County (eleven members and sixteen nonmembers) with four branches, one private bank, fourteen savings institutions, and five industrial banks including one operating under restrictions - making a total of fifty-one banking offices.

The various institutions pay interest on savings accounts and full-paid and unhypothecated installment savings certificates at the following rates:

No. of Banks	Rates
18 (including 14 savings banks)	2½ per cent on entire balance
15	2 per cent on entire balance
3	1½ per cent on entire balance
3	1½ per cent on first $10,000, 1 per cent on any excess
1	1½ per cent on first $5,000, 1 per cent on next $5,000, and nothing on the excess above $10,000
1	1 per cent on first $5,000, and nothing on any excess
1 (industrial bank)	4 per cent on savings certificates
2 (industrial banks)	3 per cent on savings certificates
1 (industrial bank)	2½ per cent on savings certificates
1 (industrial bank restricted)	Does not pay any interest on certificates
1 (private bank)	Does not accept savings deposits

The industrial banks pay no interest on the hypothecated certificates representing partial payments on loans.

Loans and discounts of the commercial banks and the private bank aggregate about $55,000,000, reflecting a decline of $500,000

since the first of the year. Officers of a number of commercial banks state that they have made a special effort to solicit new loans and have been able to retard the decrease in loan portfolios in this way. Nine of these banks have granted $4,000,000 Federal Housing Administration Title II insured mortgages. One bank has continued its arrangement with a large insurance company, and handled about $879,000 in mortgage loans during 1938 as compared with $1,504,000 in 1937. For the past three years this bank has financed more than three times as many new homes in its section as all other competitive lenders combined. The fourteen savings banks now hold $79,200,000 loans on real estate as compared with $75,000,000 on January 1, 1938. Most of them report keen competition for mortgage loans from insurance companies and other sources, and have reduced rates to as low as 4 per cent in order to obtain new commitments or to hold their existing loans. Four savings banks own $3,000,000 Federal Housing Administration Title II mortgages; one has either purchased or granted $2,300,000 of this amount, and the other three have purchased all of their insured mortgages from commercial banks in the county.

Greene, Ulster, Orange, Rockland, and Sullivan Counties, New York

Officers of only eight banks report a good demand for accommodation, the majority characterizing it as light or moderate. The interest rate is quite generally maintained at 6 per cent although most banks make some exceptions, particularly in the case of loans secured by cash surrender value of life insurance or by other good collateral, and on loans to municipalities. The majority of banks in this area have made an effort to negotiate loans under the provisions of the National Housing Act, and several have purchased substantial amounts of Title II mortgages originated by other institutions.

Several officers spoke in complimentary terms of the various services performed by the Federal Reserve Bank of New York, and two commented on the more sympathetic and helpful attitude evidenced by the national bank examiners at the time of their last visit. Such criticisms as were received were directed principally to governmental policies; viz., the failure of the administration to encourage private enterprise, to reduce expenses, and to balance the budget. There were some complaints about government competition in the lending field, and a few officers voiced opposition to the new principles governing examination procedure in so far as they apply to the valuation of securities at any other than the market price current at the date of examination. The officers of one member trust company, who for some time past have been reluctant to write off potential loan losses, objected to the severity of our examiner's appraisals. The president of another bank

expressed the conviction that deposit insurance premiums should vary with the risk involved, as fire insurance premiums do, and should be based on some such factor as the ratio of good capital funds to deposit liabilities.

Summary of Preferred Capital Issues - In the six counties visited, there are 92 commercial banks, 50 of which have issued preferred stock, capital notes, or debentures aggregating $7,777,500 par value. Up to the present time four have paid off their entire issues amounting to $190,000, thirty-six have made partial redemptions aggregating $982,227, and ten have not retired any - leaving forty-six banks with a total still outstanding of $6,605,273 par value, retirable at $7,053,841, reflecting a redemption premium of $448,568.

PHILADELPHIA

West Central New Jersey

An increase in deposits of about $2,500,000 is chiefly responsible for an increase since April, 1938, of $2,775,000 in resources and liabilities of all banks in the area. The greater portion of the deposit increase is in demand accounts at the larger institutions, representing increased balances of corporations and public agencies.

Interest rates paid on time and savings accounts are as follows:

1 bank pays 2 per cent on the first $1,000 and 1 per cent on all sums in excess of that figure.
3 banks pay 2 per cent on the first $5,000 and 1½ per cent on all sums in excess of that figure.
1 bank pays 2 per cent on the first $5,000, 1½ per cent on the second $5,000, and 1 per cent on all sums in excess of $10,000.
35 banks pay 2 per cent.
18 banks pay 1½ per cent.
3 banks pay 1½ per cent on the first $5,000, 1 per cent on the second $5,000, and ½ per cent on all sums in excess of $10,000.
6 banks pay 1 per cent.

The smaller banks, most of which are located in farming or residential communities, have been able to maintain the 6 per cent loaning rate but at the larger banks rates vary, good business loans commanding rates considerably below 6 per cent. Mortgage money is

available at 5 per cent at a number of banks and several of these banks are granting F. H. A. mortgages. Many of the banks in this area have gone quite extensively into the granting of consumer credit, personal loans, and automobile finance loans and report a satisfactory experience to date. Demand for other types of credit is extremely light and bank earnings are affected accordingly. In addition to the earnings problem, bankers are concerned chiefly with the possibility of lower bond prices and their effect upon banks' capital structures. Depreciation exists at a majority of the banks and at many presents the major problem. There were also several institutions which reported sizable appreciation.

The cashier of a national bank with deposits of about $1,400,000 said that he is sick of criticism by the examiner, that his aim now is to get all loans liquidated and sit with the cash and let the authorities "cuss and damn" because the bank has no earnings. The majority of loans in the bank are predicated upon real estate and are affected by the reduced activity of the large industry on which the town depends. A large corporation is interested in the bank and no doubt would see to it that it stays in operation.

The cashier of another national bank, the deposits of which total about $600,000, complained about the activities of a local Federal Savings and Loan Association. There are five building and loan associations operating in this town and the Federal Savings and Loan Association referred to is a conversion of the building and loan operated by the cashier of the bank which the subject institution succeeded. The officer interviewed objected principally to the use of the word "deposits" in advertising, to the active solicitation of accounts, and also to the fact that any amount may be deposited at any time.

At the largest national bank in Trenton the executive vice president spoke very highly of the savings and convenience to them of the use of armored car in making shipments of coin and currency to and from the banks of that city and the Reserve bank. Several other bankers also commented favorably upon this service. This means of transportation was adopted about six months ago and at present 26 banks located in 9 cities and towns are being served in this manner at a reduction in cost to the Reserve bank.

A number of member banks were interested in forwarding checks to us and were glad to learn that it can now be done with but two sorts. However, many are not availing themselves of this service as they do not wish to keep a record of deferred items. In view of the large amounts of uninvested funds today these bankers

are disposed to let the correspondent banks do the work of sorting checks and keeping the record of availability dates.

CLEVELAND

During the month special visits were made to a few banks, located close to metropolitan centers, whose checks have been collected through their correspondent banks in such centers, with a view to securing the consent of the bank and the correspondent bank to direct collection of such items in order to facilitate the prompt return of unpaid checks. In every instance where the subject had been discussed with officers in authority such arrangements have been made. There is also a possibility that one of the two nonpar banks in the district may consent to our par remittance agreement.

In visits to two nonmember banks the subject of membership in the System was brought up by the officers of those institutions. One of them stated that for more than fifty years they had had four correspondent banks and did not know whether membership in the System would mean anything more than another correspondent and another account to reconcile. Another bank indicated that under State supervision he "operated pretty much as he pleased" and that his hesitancy in filing application was because as a member bank he would have too many laws and regulations to consider.

In the light burley tobacco-growing region of Kentucky deposit accounts are being withdrawn much earlier than is usually the case. The crop of light burley which, shortly before maturity gave promise of being unusually high quality turned out to be lighter in weight than was expected, and the price was well below the anticipated return.

Not only are deposits being withdrawn contraseasonally but liquidation of loans was not accomplished to the usual extent. This is particularly serious in the case of tenant farmers, who ordinarily have no collateral and whose credit standing will not permit them to borrow bank funds through another growing season.

Occasionally complaints are heard of the disadvantage at which national banks are placed in competition with State nonmember banks by reason of governmental restrictions surrounding the activities of the former type of institution.

Despite the experience of many banks in sharply increasing loan totals following the reductions in rates of interest charged, many banks are still adhering to the time-honored six per cent rate.

One large bank in an important industrial center in Kentucky reports that rather than make a concession in rate they refer borrowers to their city correspondents. Their argument is that to make concessions on the six per cent rate would "demoralize other borrowers."

There has been introduced in the Ohio Legislature a bill providing for the establishment by banks of branches in counties contiguous to that in which the main office is located. In a referendum conducted by the Ohio Bankers Association five hundred and ten voted against approval and ninety voted favorably.

To make effective the amendment to the State constitution which was ratified at last Fall's election, legislation eliminating the so-called double liability on bank stock has been passed by the West Virginia legislature and the bill is now in the hands of the Governor for signature.

RICHMOND

Harford and Cecil Counties, Maryland

Some Maryland banks have had unfortunate experience with corporate issues and are reluctant to buy them now. The excess of their yield over Federal, state, and municipal issues is not considered sufficient to offset the additional risk. Nevertheless, some banks are considering corporate issues once more.

Banks in this section are feeling the impact of competition from banks in larger centers and attribute some of their problems to the drift of business to these larger centers. This competition has also influenced these banks to lower their lending rate, since outside banks and individuals have been active in soliciting real estate mortgage loans which formerly were made almost exclusively by local banks.

Vegetable canners, in the vicinity of Aberdeen, have been confronted with prices much below the costs of production. Hence, sales are made only because of pressure for cash. These costs have been increased in part because the burden of carrying stocks has been shifted from the jobber to the packer. Thus, the packer has been compelled to face the problem of financing his stock and to this end he has turned to warehousemen. The latter are not handicapped, as are the banks, by restrictions upon the amount that may be loaned to one interest.

Notwithstanding occasional complaints, it appears that banks in this region have realized good results in terms of earnings. The enforced resort to investment in bonds of low yield has undoubtedly reduced earnings, but it is admitted that it has also reduced losses. While maintaining the rate on deposits at two per cent, banks have developed service charges. A revised schedule of these will soon be established whereby each depositor will be entitled to one free check for each $10 of average balance, with a charge of four cents for each check in excess of the number so limited.

Eastern Central South Carolina

There is almost no complaint among banks in this section because of competition with Production Credit Associations. Indeed, most bankers consider these associations to be beneficial, since many farmers would be deprived of their only source of credit but for them. Crop loans made by banks rest chiefly upon the value of the borrower's livestock and his general credit record rather than upon tobacco and cotton acreage. However, such loans will usually average from $30 to $35 per acre for tobacco and from $15 to $20 per acre for cotton. The experience of banks with the 1938 crop loans was satisfactory, since the loan rate is usually seven per cent and collections have been good. It is believed that demand for production loans will be greater this year than last, but some banks will shorten their commitments because prospects are not considered as good as they were last year.

As for loans under commitments from the Commodity Credit Corporation, the volume has seriously declined and this is attributed to excessive regulations, one of which requires cotton to be graded by samples submitted to Federal graders in Columbia or Charleston. In some cases farmers have sold rather than stored and borrowed on their cotton because of objection to the regulations.

The chief disturbing factor in the agricultural outlook is the absence of crop control for tobacco. It is generally believed that there will be an increased production among small planters and, in consequence, it is believed that the price will drop. As to the extent of the probable drop, there is naturally some difference of opinion, but it is widely believed that the price will not average above 15 cents a pound as against better than 20 cents in 1938.

ATLANTA

Louisiana

Visits were made to banks located in an agricultural section of the State, the principal crops being rice, sugar cane, cotton and sweet potatoes. Prices received by the farmers for last year's crops were not sufficiently high to yield the usual margin of profit. It was reported that some farmers sold their rice at $2.25 per barrel, and benefit payments will increase the return per barrel to about $2.55. It was stated that a yield of approximately $3.00 per barrel is necessary to assure the farmer a profit. The present market for rice is $2.65 per barrel.

It was reported that sugar cane brought as little as $2.50 per ton, and that even with benefit payments of approximately 84 cents per ton there was no profit for the grower. It is estimated that the farmer should receive $3.50 per ton, or better, in order to make a profit.

Eight per cent is the prevailing rate of interest on loans. The president of one of the banks visited expressed the opinion that this rate was too high, but stated that his directors would not agree to a reduction. Most of the banks pay two per cent interest on savings deposits, but attempt is made to limit each account to $5,000.

The officers of the banks visited stated that 1938 had been a very good year. The bankers are looking forward to still better results in 1939, provided that farmers are able to obtain prices for their crops in excess of production costs. One or two bankers expressed concern over the fact that the farmer is not making a margin of profit sufficient to enable him to purchase farm machinery and other necessary equipment. It was pointed out that were it not for the income the farmer is receiving from the sale of cattle, hogs and sheep, he would not be able to show any profit on his operations.

The bankers interviewed were generally agreed that Governmental lending agencies are not competing with the banks in the making of loans. On the contrary, it was felt that these agencies are rendering a distinct service to borrowers who are not in position to obtain loans from banks.

Visits were made also to a number of banks located in the Parishes of Iberville, Ascension, and Lafourche. The majority of these banks are dependent to a very large extent upon bond investments and service charges as sources of revenue. The chief problem of the banks in this territory appears to be the absence of demand for loans.

Considerable interest is being shown in oil development in this section, and it is believed that activity in this industry will play a major part in the future development of business for the banks.

No complaints or suggestions regarding the services performed by the Federal Reserve Bank were offered. The desire on the part of nonmember banks to collect exchange continues to be the principal deterrent to membership in the System.

CHICAGO

Representatives from this bank attended the meeting of the Fayette County Bankers Association at West Union, Iowa, and the annual meeting of Group #11 of the Iowa Bankers Association at Burlington, Iowa, during February. At the West Union meeting, one of the topics discussed referred to the banking bill which has been presented in the State legislature and which, if enacted, would merge the banking department with other State departments. At Burlington, most of the bankers appeared to be in a good frame of mind, objecting of course to competition from Government agencies and the low yield on investment securities. A number of them reported a small increase in demand for loans which, together with service charges now quite generally established, resulted in a fair operating profit for the year 1938. The association went on record as opposing compulsory membership in the Federal Reserve System, but some of the speakers intimated that the State association would support a bill that would give National banks the same privileges with respect to the operation of branches and offices as are now enjoyed by State nonmember banks.

Many banks in the district are continuing, as heretofore, to increase their holdings of F.H.A. and personal loans and loans on accounts receivable, apparently believing that it will be necessary to depend more and more on the financing of consumers' credit and the making of real estate loans to employ their funds. Banks also continue to dispose of their corporate bonds and to buy Governments. Several banks that have been operating unprofitable trust departments are considering the surrender of their rights to exercise trust powers. There is apparently more disposition on the part of supervisory authorities to encourage whenever possible the consolidation of banks in localities where there is an overbanked situation.

The State Banking Department of Michigan has agreed to use for its next call date the Federal Reserve Report of Condition form, including the publisher's copy. These are being sent to the department which will forward them to the various State banks. In cooperation with the Illinois Bankers Association, this bank is preparing call statement figures of National banks located in that part of the Seventh District in Illinois. It has also recently completed an analysis of average annual salaries of the officers and employees of National and State member banks of the Seventh Federal Reserve District, which information is available

for the confidential use of those interested. During the month, two State banks were admitted to membership. Five applications for membership are now pending. One member and two nonmember State banks in Illinois have filed applications to convert to National associations.

The Board's annual statement has apparently created considerable interest on the part of member banks, and a number of complimentary comments have been made.

ST. LOUIS

Agriculture

The Arkansas territory visited is largely agricultural, the principal crops being cotton, rice, corn and other forage crops. There are also a number of industries, one of the most important being lumbering. The trend among farmers during the past several years has been in the direction of diversification, and their efforts have met with good results. There has been a notable growth in livestock raising, particularly since the cotton acreage was cut by the Government's agricultural program. Bankers are doing much to encourage breeding of higher grade cattle and hogs. On the land taken out of cotton, farmers are producing food and forage crops.

The rice crop last year was slightly smaller than in 1937, and due to low price at time of harvest, much rice was retained by farmers. Only recently have they been moving their grain to the mills. Prices for the better grades range from 70 cents to 75 cents per bushel, at which levels there is a moderate profit for the producers.

Similar conditions obtain with reference to cotton. An unusually large part of the 1938 crop has gone into the Government loan. Recent improvement in price has not been sufficient to result in a heavy movement to markets. The open fall and early winter permitted of almost uninterrupted field work, and soil preparation is generally further advanced than is ordinarily the case at this time of year.

The Federal Government is going in for considerable resettlement projects. North of McGehee, Ark., it has colonized 52 negro families, each being allotted 50 acres of tillable land and furnished with necessary farming equipment. Bankers and businessmen in the community are dubious as to the success of the project.

In Mississippi counties visited cotton is the principal production, and conditions are similar to those existing in Arkansas.

In the area visited in Illinois wheat is the principal crop. The condition of the growing plant has been much improved by moisture

in recent weeks and the average is considerably above that on December 1. The area is within the St. Louis milk shed and large quantities of whole milk are sold to the St. Louis dairies.

Commercial Banking

Throughout the territory visited bankers complained of slack demand for money. Demand for production loans has not yet developed in volume, but bankers are generally of the opinion that such requirements this season will be greater than in 1938.

Demand for funds to finance the purchase, conditioning and marketing of livestock is active. There is also a fair inquiry for building and real estate loans, mainly under Federal Housing Act. Interest charged on customer loans ranges from 5 1/2 to 10 per cent, with the major figure of the range being common with small Arkansas banks. Additional complaints were heard of competition from the Production Credit Corporation and other Governmental agencies.

In Arkansas a relatively small portion of deposits are subject to interest, whereas in Illinois it is a fairly general practice to pay interest on time deposits. Rates paid range from 1 1/2 to 2 1/2 per cent. Several banks have lowered the amount of interest bearing deposits they will take from any single individual.

Other Comments

The president of an Arkansas nonmember is very optimistic concerning the future of country banks. His bank plays an important part in the development of a better farming program. Farmers are being encouraged to increase their herds of beef and dairy cattle and advances are being made to those seeking accommodations for this purpose. The bank's earnings for 1938 were far greater than for any of the previous five years. Another Arkansas nonmember officer is not very optimistic about the future prospects for the country bank in the south. He stated that banks can not exist without loans and most bankers are reluctant to make loans for fear of criticism by the examiners.

MINNEAPOLIS

On February 21-22, 1939, Group One of the Wisconsin Bankers Association held its annual meeting in St. Paul, Minnesota. This group comprises banks in the Northwestern Section of the State of Wisconsin. Approximately 400 bankers were registered.

Montfort Jones, Professor of Economics of the University of Pittsburgh, Pittsburgh, Pennsylvania, and a faculty member of the American Institute of Banking, Graduate School of Banking, was the luncheon speaker. His subject was "Recent Developments in Money and Credit." Mr. Jones directed the attention of those present to the wide influence now exercised by the Treasury Department over the banking system of the United States; an influence, which he said, "is more powerful than that of the Federal Reserve System"; corroborating his statement by the excerpts from the 1938 Annual Report of the Board of Governors of the Federal Reserve System.

Incidentally, this report has aroused favorable comment by both the member and nonmember banks. Bankers at the meetings expressed the opinion that the action of the Board in distributing this booklet has been an excellent Federal Reserve System public relations activity.

Among the comments made was a remark by the president of a large nonmember bank in Western Wisconsin, that he had just completed reading the reprint of the first part of the 1938 annual report, and that he considered it one of the most important documents ever issued by the Board of Governors and was pleased with the grasp displayed in it of the problems of the country banker.

Also, a banker in the Twin Cities said that he had read the report, and he expressed gratification at the recognition being given by the present Board of Governors to the non-par banks' point of view toward Federal Reserve membership.

The program that we have instituted within the past few years of having our bank officers call on every member and non-member bank in the Ninth District once a year has apparently built up a friendlier, closer relationship, so that now when out-of-town bankers visit the Twin Cities, they make it a point of coming to see us. This is in marked contrast to former years when only a handful of bankers took the time or trouble to call at the bank.

On February 10 of this year, there was mailed to all the member banks in our district the study of bank "operating ratios" for our district for the year 1938. From the comments received, it is obvious that the bankers are making good use of this material. Several have written in requesting additional copies for their directors and further interpretations of the ratios in order that they might measure the operations of their banks against the average for the group in which they happen to fall. They say it was particularly valuable because of the fact that the study was received shortly after the end of the year, thereby enabling them to give consideration to changes which would affect their 1939 operations.

The banks, as a whole, enjoyed satisfactory earnings for 1938. As one banker remarked, the banks have no occasion to complain, for even in face of low interest rates, bank earnings far exceed the earnings of non-banking corporations.

Our second Federal Reserve Member Bank Conference will be held on March 25.

KANSAS CITY

An unusually large number of bank visits were made in February in western and southwestern Oklahoma. It is reported that farmers in that region are raising more wheat and less cotton. In particular, banks are urging farmers to turn away from cotton and raise more cattle, sheep, and hogs. The recent favorable experience with livestock, as contrasted with that of cotton, is giving impetus to this movement. It is reported that there is a tendency among farmers to sell cotton rather than place a loan on it.

Favorable reports regarding livestock continue to come in. Feed is cheap and the pastures and ranges are in good shape after years of drouth. Out of this situation has come an active demand for stock cattle. One banker reported a full purchase price loan amounting to $1,600 which he made four months ago to a farmer to buy cattle. After feeding for 108 days these cattle were sold for $2,500. Another banker cited a loan he had made to a farmer amounting to $3,100 to purchase 1,200 head of lambs. After 80 days the farmer sold 500 of these lambs for $3,400, netting $300 and 700 lambs in the transaction. Another bank customer recently bought cattle and, after 60 days on pasture and cheap feed, sold them at a net profit of $12 a head. Profitable operations such as these create an active demand for livestock loans.

Many banks are somewhat uneasy, however, about cattle prices. The margin between stock and fat cattle is regarded as too narrow and the recent weakness in the price of fat cattle has convinced many bankers that the price of stocker and feeder animals will be revised downward before long.

Considerable variation was found regarding deposits and loans. In regions predominantly interested in livestock, many banks report they have all the loans they want while banks in other regions are greatly dissatisfied. In some cases deposits are declining while in others they appear to be on the increase. The deposits and loans of banks whose customers are heavily involved in livestock naturally fluctuate because of buying and selling operations.

Only a limited amount of adverse criticism was found of Production Credit Associations. A few banks reported these associations do not interfere with their operations as they make loans of a type banks do not wish. In fact, one Kansas banker said he was inclined to look upon these Credit Associations as an outlet for the demand for border line loans.

There is a good deal of complaint from country banks regarding the indebtedness of farmers for tractors and other implements. The belief is expressed that there is a very noticeable trend toward horse and mule farming in some communities and that another season will see a considerable increase in the number of colts.

Heavy recent snows in many parts of the District have greatly improved the wheat outlook where wheat was alive. But there is a great amount of wheat in bad shape and Government insurance agents are already adjusting losses on insured fields in order that farmers can turn the land to other uses.

One bank with twelve years' experience with automobile paper reports it has had practically no losses in that time and that such loans have been profitable. A Kansas banker, who has $85,000 in automobile loans, says his bank has repossessed only two cars in the last two years. He is enthusiastic regarding the safety and profitableness of such loans. Banks that specialize in oil paper report increasing difficulty with such loans. The present oil proration is only a fraction of potential production and on such a restricted basis of production it is very difficult to make loans with any assurance of their repayment or substantial reduction within a two-year period.

The insurance of bank deposits is keeping quite a number of eligible State banks in Kansas out of the Federal Reserve System. There is an unusual amount of bitter feeling among Kansas State banks in regard to bank deposit guaranty.

A number of bankers seem to be greatly heartened over what they have some reason to believe is a new trend in national affairs. The present spirit of cooperation with business in an endeavor to bring about business recovery is commented upon favorably.

DALLAS

Membership Prospects

For some reason there appears to be an unusual degree of interest at this time among the nonmember banks of the district in the

matter of Federal Reserve membership. Three such institutions, including a large city bank, were recently admitted to membership, and another application is in process of being filed. In addition, inquiries on the subject have been received in recent months from several other nonmembers in various parts of the district. The reasons for this manifestation of increased interest in membership are not altogether clear. In the case of the larger banks there is doubtless some thought being given to the subject by reason of the approaching "deadline" in 1942, while in the case of many of the smaller banks it is possible that the mounting demand for agricultural credit has clothed the rediscount facilities of the System with a growing appeal, particularly in respect to country banks which are anxious to recapture some of the business they have lost in recent years to various Federal lending agencies.

Lower Rio Grande Valley

Six member banks in Lower Rio Grande Valley of Texas reported a very slack demand for credit. Some of them are making a few loans under Title I and Title II of the National Housing Act. Three of the banks reported they had disposed of their long-term Government bonds and were undecided as to making further investments in such issues.

The Valley's citrus crop this year is the largest in its history and prices are most unfavorable. Current sales at an average of $10 per ton leave the growers no profit. Production is estimated at 40,000 carloads, and only about a third of the crop has been marketed.

Southwest Texas

In this area the production of livestock - principally sheep, goats and cattle - is the principal industry, although cotton and other agricultural products are important. Both the physical condition of livestock and their ranges, and the current market prices of wool, mohair, sheep and cattle are unusually favorable.

The recent construction and licensing of a number of Federal bonded warehouses in the counties visited by our officers have enabled wool growers to improve and stabilize their position by marketing their product gradually throughout the year, instead of selling their wool hurriedly after each clip. The visited banks reported that there are more buyers than sellers in the local wool centers and that the producers are enjoying an exceptional era of prosperity as a result of the strong and active demand for their product.

Generally speaking the banks reported a gradually increasing demand for credit, and in some cases it will be necessary for them to use the rediscount facilities of the reserve bank to take care of the

needs of agriculture, particularly those growing out of the feeding of cattle for the market. The number of feeders is steadily increasing in this section of Texas, due in part to the growing popularity and success of trench silos.

The attitude of the farmers toward the Government's A.A.A. program has undergone a marked change since the first of the year, when the flow of Government checks for their 1938 operations began to make itself felt. Toward the close of 1938 the farmers were openly rebellious over the Government's crop control program, but it is now estimated that more than ninety per cent of those who are still farming have been won over to active support of the program. The banks insist, however, that the program is gradually driving many tenant farmers from the farms to the cities.

Bank earnings in 1938, as a general rule, were quite satisfactory throughout Southwest Texas. Little complaint is heard in regard to the competitive activities of Federal agencies.

Some concern was expressed by the visited bankers as to the ability of the cattle market to maintain present high price levels.

Investment portfolios of member banks do not appear to be presenting problems of any importance. The demand for loans is providing the banks in most instances with sufficient employment for their funds to meet their requirements for earnings. Some of the banks have recently disposed of their long-term Governments at a profit. A significant development in this connection is the fact that a number of the banks in the visited area have adopted the policy of purchasing a certain amount of United States savings bonds annually for the period of the next several years.

General economic conditions in Southwest Texas were found to be exceptionally good, except in the few communities which are strictly dependent upon cotton.

SAN FRANCISCO

San Diego and vicinity

Conditions in San Diego are described as fair only. The tourist crop, both last summer and this winter, fell far short of expectations, with tourists exhibiting an economical trend. This had quite an effect on the hotels and restaurants, as well as the retail trade. Opinion is expressed that tourists have been delaying their trips, awaiting the opening of the San Francisco and New York Fairs.

The fishing and fish packing industry, one of the sources of substantial revenue for San Diego, was seriously affected by a prolonged strike during the last year. The airplane industry has encountered a lull, with greatly reduced payrolls. The United States Fleet, with a personnel of around 25,000 men and monthly expenditures of probably $3,000,000 left the first of the year for the Atlantic Seaboard. These happenings have naturally reduced income and purchasing power, and affected retail trade and housing operations in the community.

On the other hand, rather extensive United States Government reclamation and dredging operations in the harbor, and additions, alterations, etc., to naval shore units, such as the Naval Hospital, Destroyer Base, Marine Corps Base, Naval Air Station, and others, have served in some measure to offset the unfavorable factors previously cited. It is estimated that several million dollars will be spent during 1939 in projects of this nature.

Housing operations during 1938 totaled $11,009,000, as against $8,223,000 in 1937.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

FEBRUARY - 1939

Federal Reserve Bank	Visits to Banks			Meetings attended		Addresses made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	—	—	—	—	—	1/5	979
New York	70	58	128	9	5,529	2/3	50
Philadelphia	55	13	68	5	2,650	1	150
Cleveland	106	29	135	3	2,722	—	—
Richmond	30	16	46	8	3,680	3/6	235
Atlanta	5	8	13	—	—	—	—
Chicago	1	7	8	4	1,490	2	55
St. Louis	21	78	99	2	1,500	2/3	15
Minneapolis	27	10	37	1/12	3,623	2/13	3,067
Kansas City	50	57	107	6	1,615	3/7	115
Dallas	30	2	32	8	3,650	1	4/
San Francisco	24	4	28	12	937	1/2	27

1/ Including one broadcast.
2/ Including two broadcasts.
3/ Including three broadcasts
4/ Attendance not reported

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 20, 1939.

Dear Sir:

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

NUBEKE - Treasury Bills to be dated March 22, 1939, and to mature June 21, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-430

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 21, 1939.

Dear Sir:

Referring to the Board's letters of October 30, 1936 (X-9729), and December 28, 1938 (S-137), it will be appreciated if you will furnish the Board with the following data regarding the officers and employees of your bank who will attend the 1939 session of the Graduate School of Banking at Rutgers University:

(1) Total number who will attend 1939 session:
  (a) Number of first-year students,
  (b) Number of second-year students, and
  (c) Number of third-year students.

(2) Total number who will attend wholly or partially at bank's expense:
  (a) Number who will be granted necessary leave with pay,
  (b) Number whose transportation expenses will be paid by bank, and
  (c) Number whose registration and resident and extension tuition fees will be paid by bank.

(3) Total number who will attend entirely at their own expense during their annual vacations.

It will also be appreciated if you will advise the number of officers and employees at your bank who have attended the first or second sessions, or both, but who will not attend this year.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-431

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 22, 1939.

Dear Sir:

A special project in the field of bank earnings is being undertaken jointly by the Federal Reserve System and the Federal Deposit Insurance Corporation. It is based largely on the operating ratios of member banks for 1938, which are in preparation or have recently been prepared at the Federal Reserve banks. For this purpose a supply of tabulation forms like the one attached (F. R. 456) is being forwarded to you. It will be appreciated if you will have one of these forms filled out for each member bank in your district whose figures were used in your 1938 compilation of average operating ratios, and if you will return the completed forms to the Board. Instructions concerning the tabulation of the desired data are contained in the accompanying memorandum.

Upon receipt of the completed forms by the Board, the coding items (6-14) will be entered (for sorting purposes), and the data shown on the forms will be transferred to punched cards. The cards will then be sorted and tabulated in order to make available various analyses of member bank operating ratios in addition to the size of bank and geographic distributions which the Federal Reserve banks have prepared or are making.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-431-a

INSTRUCTIONS CONCERNING TABULATION OF
DATA ON FORM F. R. 456

The items and captions on form F. R. 456 are for the most part self-explanatory. All of the balance sheet items (1-5) and most of the ratio items (15-46) presumably have already been computed in accordance with the plan of the Presidents' Conference Committee on Operating Ratios of Member Banks. Except for items 17, 18, 30, and 45, which need not be filled in where the necessary basic data have not already been tabulated, the ratios not already provided for on your worksheets (form ERNX or some similar form) may be calculated from other data shown on such worksheets. All figures may be recorded on form F. R. 456 either by typewriter or in longhand. In order that possible errors may be avoided, it is suggested that the figures shown for all the items except possibly 32-34 and 37-39, which are self-balancing, be individually checked before the forms are forwarded to the Board. Items 15-25 are also self-balancing, but, unless the ratios for "all other current earnings" and "all other current expenses" were computed directly rather than by subtraction, this does not constitute an adequate check.

In districts where the basic data for items 17 and 18, service charges and trust department earnings, have been tabulated, figures for these items should be reported separately for each member bank that derived any earnings from these sources; in other districts they will be comprehended in the ratio reported for "all other current earnings" (item 19).

It is assumed that item 22, interest on deposits, includes interest paid on deposits of other banks and on other demand deposits as reported for the first half of the year. If this is not the case, please indicate in an accompanying memorandum how the computation of this ratio was handled in your district.

The total of items 15-19 must equal item 20 (100.0%), and the total of items 21-23 must equal item 24. Item 24 plus item 25 must also equal item 20. Similarly, the difference between items 32 and 33 must equal item 34, and the difference between items 37 and 38 must equal item 39, these differences being shown as minus figures unless recoveries are larger than losses.

The ratio of total deposits to total capital account, item 46, is the only one which is not to be expressed as a percentage. It will be an actual or direct ratio, carried to 1 decimal, as 10.0 (when deposits are 10 times capital account).

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-432

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 22, 1939.

Dear Sir:

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

The exhibit has been revised in the following respects: The salaries of officers and employees shown on pages 1-4 now represent total salaries as reported on Form 96 plus salaries charged to telegraph, printing, and cafeteria. The total number of officers and employees shown for the various service units is before distribution to the fiscal agency, custodianship, and depositary and other units. An additional column has been provided in the service units to show the number of officers and employees distributed. Changes have been made in the Fiscal Agency, Custodianship and Depositary function to conform with the revised Form E report.

Very truly yours,

E. L. Smead

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

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-433

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

STATEMENT BY MARRINER S. ECCLES

BEFORE THE

SENATE SPECIAL SILVER COMMITTEE

THURSDAY, MARCH 23, 1939.

TO BE RELEASED UPON DELIVERY AT THE HEARING

After I testified before your Committee on Tuesday, I realized that the problems we were discussing are only a part of a broader picture, and that it might serve your purposes better if I made a statement dealing briefly with the main issue that confronts us.

There is an infinite variety of opinion as to how to bring about recovery, but all shades of opinion agree on the main objective, which is the restoration of a volume of industrial, trade, and agricultural activity that would result in full employment of labor and would give all our people an opportunity to earn a decent livelihood. At this juncture we all want to concentrate our efforts on achieving this common objective and over the longer pull we want to prevent the recurrence of booms and depressions and of violent changes in the national income.

There are those, and I believe that they include some members of this Committee, who believe that the general objective can be achieved best by the issuance of additional currency by the United States Government, whether in the form of silver certificates or United States notes. I sincerely wish that the problem were as simple as that, because that would not be a difficult thing to do. But experience convinces me that the problem cannot be solved in this manner. Under our financial system and with the habits of our people, currency is used only to make minor payments or for hoarding and all the currency in excess of day-to-day requirements of the people finds its way back to the banks and is redeposited by them with the Federal Reserve banks. In other words, redundant currency would not stay in circulation. It would only add to the present huge excess of

bank reserves and to existing demand deposits without creating an opportunity for the use of either these reserves or these deposits.

That prosperity does not depend upon the volume of currency is evident from the fact that we had considerably less currency outside of banks during the entire period of the 1920's -- when we had reasonably full employment and production -- than we have today. In 1929 currency outside of banks was $3,600,000,000 and now it is $5,700,000,000.

In our modern economy when we speak of money we mean not only coins and paper money, but also deposits at the banks, and we now have more deposits than at any other time in the history of the country. The amount of deposits subject to check is $26,000,000,000 today, as compared with $23,000,000,000 at the peak of the boom in 1929 and $22,000,000,000 in 1926, which is generally considered a prosperous year.

Employment and national income depend not merely on the volume of money in existence, but also on the use that is made of this money. Today we have large holdings of idle deposits and currency which, if put to use by the owners, would employ all our workers and would produce a national income adequate for a reasonable degree of prosperity.

The crucial question, therefore, is how to make the existing abundant money supply function more effectively. On this question there are two opposite schools of thought. I belong to the school that believes that every possible encouragement should be given to private investment

and private enterprise for profitable employment of the great surplus of idle funds, idle men and idle resources which we have in this country today. However, I believe that when private enterprise is unable or unwilling to do so, Government should help to put this idle money, some of the ten millions of unemployed, and idle facilities to work in non-competitive, socially and economically desirable public activities, including the building of roads, schools, hospitals, housing, etc. This, of course, should be done as efficiently as possible and in a way that will stimulate and supplement private activity. Expenditures for these purposes, for farm benefits and for adequate pensions for the aged will increase the effective demand for the output of industry and thus not only sustain existing investments but provide profitable outlets for investment in new enterprise. This would increase the national income and the Federal revenue and thus ultimately bring about a balanced budget, which we all desire.

To my mind, this would be practising real national economy, for I believe that the failure to use these factors of production causes a great and irreparable waste.

When our productive capacity is in excess of current demand, as it is today, it does not make sense to me to expect that a reduction in the demand originating from government activities is going to lead the makers of agricultural implements, the railroads, the automobile manufacturers, the textile industry or, for that matter, any other industry, to enlarge plant capacity, increase production and thus furnish employment. If the buying power of millions of people on WPA rolls or in public construction, or in shipyards and airplane factories is reduced, I do not

see how we can expect more houses to be built and more capital expenditure to take place.

Another school of thought, however, believes that business confidence cannot be restored until a balanced budget is assured through reduction of government expenditure, that continued deficits are holding back private investment, that government employment is demoralizing and destructive of the moral fibre of our people, that the public expenditures are wasteful and are piling up a burden of debt which our children and grandchildren will have to pay off. Senator Byrd has stated that he believes that for every dollar the Government borrows and spends, private enterprise is deterred from spending two.

A similar viewpoint has been expressed by the United States Chamber of Commerce, by stockholders replying to a questionnaire sent out by the National Association of Manufacturers, by the New York State Bankers Association, and by the American Institute of Steel Construction, representing an important element in heavy industry. It is not too much to say, in fact, that this appears to be the prevailing point of view among business men and the public generally, as reflected by a recent Gallup poll, by innumerable resolutions of trade associations, by bankers' groups, and -- as I can testify from personal experience -- by the overwhelming majority of newspaper editorials.

A great majority of people appear to believe, therefore, that business confidence would be restored if the budget were balanced, and that the spurt of economic activity that would result would accomplish

our common aim of recovery. It would appear that the majority of the business leaders on whom would fall the task of producing the activity necessary to recovery are convinced that the Government's expenditures compete with and discourage private investment in existing and in new enterprise. A majority in both houses of Congress have indicated that they also hold this view. While I am convinced that such a policy of retrenchment under present conditions would have disastrous results, we live in a democracy and, therefore, I believe that the viewpoint of the majority should promptly be made effective.

The country is entitled to a clear-cut and prompt determination of policy on this vital issue. Uncertainty and hesitation do not contribute to recovery. It is Congress that determines the rates and the nature of our taxes; it is Congress also that determines the amount of government money to be used for different purposes. If balancing the budget will bring about recovery, then Congress can promptly do so by reducing expenditures to the level of receipts. If, in addition, taxes were to be revised and cut as a further inducement for private enterprise, government expenses could be reduced still further to make up for the decline in tax receipts.

In order to effect sufficient economy and reduce taxes, Congress would have to reduce substantially practically all of the large items in the budget. Not much economy could be effected in the regular establishments of the Government, which in the aggregate absorb only about one-tenth

of the national budget. Such items as works relief projects, CCC camps, roads and public works of all kinds, veterans' benefits, all farm benefit payments, and national defense, some or all of these would have to be drastically curtailed.

This would not be my program, but if, as would appear, it is the program of the majority, they should assume full responsibility for it and put it into effect without delay and without compromises for the benefit of any special groups.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Sunday, March 26, 1939.

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

In February industrial activity continued at the January rate, without showing the usual rise, and retail trade increased less than seasonally. In the first three weeks of March, however, industrial activity and trade showed seasonal increases. Commodity prices continued to show little change.

Production

Volume of industrial production was at about the same rate in February as in the two previous months, although usually there is an increase, and the Board's seasonally adjusted index declined further to 98 percent of the 1923-1925 average. In the steel industry activity did not show the usual seasonal advance. Pig iron production increased, but new orders for steel were in limited volume and ingot production remained at about 54 percent of capacity throughout the month. There was some decline in automobile assemblies, following a period of considerable increase. Output of lumber and plate glass continued to decrease in February, while cement production, which had been curtailed in January, increased considerably. In the first three weeks of March

steel production increased to about 56 percent of capacity and automobile output was also in somewhat larger volume.

Textile production in February was at about the same rate as in January. At cotton and woolen mills activity increased somewhat but at silk mills there was a marked decline. Output of shoes and tobacco products continued at high levels. In the meat-packing industry activity declined further and there was also a decrease in activity at sugar refineries.

Bituminous coal production was maintained in February, and crude petroleum output likewise continued in substantial volume. Anthracite output declined in February, and in March was reduced further as mine owners and workers agreed on a curtailment program.

Value of construction contracts awarded declined in February, according to F. W. Dodge Corporation figures, owing principally to a further decrease in awards for publicly-financed work. Contracts for privately-financed residential building increased further, while awards for private nonresidential building remained at the low level of other recent months.

Employment

Factory employment and payrolls increased somewhat less than is usual between the middle of January and the middle of February. Changes in nonmanufacturing lines were largely of a seasonal nature.

Distribution

Department store sales were in about the same volume in February as in January, although some increase is usual, and sales at

variety stores increased less than seasonally, while mail order sales rose by slightly more than the seasonal amount. In the early part of March department store sales increased.

Freight-car loadings declined somewhat from January to February, reflecting for the most part reduced shipments of grains, forest products, and miscellaneous freight.

Commodity prices

Wholesale commodity prices were generally maintained with little change during February and the first three weeks of March. As is usual at this season prices of livestock and meats increased while dairy products declined. Silk prices advanced considerably in this period. In the early part of March current prices of pig iron and of semifinished and finished steel were reaffirmed for the second quarter of this year.

Bank credit

Investments in United States Government obligations by New York City banks increased considerably in February and the first half of March. In this period member banks reduced their holdings of Treasury notes and increased their bonds, reflecting in part exchanges of notes for new bond issues on March 15. Excess reserves of member banks continued somewhat below the high level of $3,600,000,000 reached at the end of January, fluctuating largely in accordance with changes in Treasury balances at the Federal Reserve banks.

Money rates

Average yields on United States Government securities

declined to new record low levels from February 27 to March 10, following the announcement by the Treasury that no cash would be raised in the March financing. Yields rose slightly after the middle of March accompanying renewed tension in Europe. New issues of 91-day Treasury bills continued to sell on practically a no-yield basis during March. Other open-market rates continued unchanged.

R-435

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1939.

Dear Sir:

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

NUBELL - Treasury Bills to be dated March 29, 1939, and to mature June 28, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-436

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 29, 1939.

Dear Sir:

It will be appreciated if you will forward to the Board as promptly as possible a recent photograph of your bank and branches (if any). The Board desires exterior views which will do justice to the buildings, and in the event you do not have recent photographs which you feel would be acceptable in every way, it is suggested that arrangements be made to have pictures taken. For the Board's purposes at least one glossy print and the negative thereof of each photograph are desired, and in the interests of uniformity the pictures should if possible be in an eight by ten inch size.

The Board now has in its files a negative and glossy print of a photograph of each of the Federal Reserve bank buildings but does not have available any photographs of branch buildings. Moreover, the photographs of the Federal Reserve bank buildings were taken many years ago in most instances.

Aside from the fact that the Board believes it desirable to have a complete file of photographs of the Reserve banks and branches, some consideration has been given recently to the possibility of including views of the Reserve banks and perhaps some of the branches in the book on the Federal Reserve System which has been in the course of preparation for some time.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-437

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1939.

Dear Sir:

Referring to the Board's letter of March 18, 1939, R-426, concerning holidays to be observed during the month of April, the Board is now advised that Saturday, April 22 has been proclaimed a legal holiday in the State of Oklahoma in commemoration of the opening of the Oklahoma Territory and that the Oklahoma City Branch of the Federal Reserve Bank of Kansas City will be closed on that day.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-438

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 3, 1939.

Dear Sir:

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

NUBEON - Treasury Bills to be dated April 5, 1939, and to mature July 5, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-439
170

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 3, 1939.

Dear Sir:

In order to provide the Board with some information as to the amount of intermediate and long-term credit now being extended to commercial and industrial businesses, it will be appreciated if you will kindly request each weekly reporting member bank to furnish you with a report on Form F. R. 464, a supply of which is enclosed, as of Wednesday, April 19, 1939. The reports will, of course, be treated as confidential, and if any of the information is released by the Board it will be in summary form.

Please forward the reports to the Board, together with any comments by your staff which may be useful to the Board in analyzing or interpreting the reports.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 5, 1939
R-440

Dear Sir:

Referring to the Board's letter R-380 of January 6, 1939, following is a statement of changes during March in the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Addition

New York
New York City — French American Banking Corporation

Deletion

Kentucky
Rocky Hill — Bank of Rocky Hill

The Bank of Rocky Hill should be added with the following note to the list (R-380b) of banks which had in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, but which are no longer in operation as nonmember banks:

(Suspended on March 4, 1939)

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-441

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

FOR RELEASE IN MORNING NEWSPAPERS
OF MONDAY, APRIL 10, 1939.

April 8, 1939.

Statement of the Board of Governors of the Federal Reserve System transmitted to the Chairmen of the Committees on Banking and Currency of the Senate and House, recommending Congressional study of monetary measures and objectives.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

April 8, 1939.

STATEMENT ON MONETARY MEASURES AND OBJECTIVES

During this session of Congress, as during other recent sessions, the Board of Governors has been asked by Committees of the Senate and House to report on a large number of bills dealing with proposals for overcoming the country's economic difficulties by monetary action.

Among the proposals that are currently before Congress, many are based on the belief that our difficulty is in the lack of an adequate supply and control of money. Some would remedy this situation by the issuance of currency, either directly by the Treasury or through the Federal Reserve banks, some would retire Government bonds by issuing paper money and thus not only increase the supply of currency but also reduce or retire altogether the interest-bearing public debt. Others believe that the remedy lies in monetization of silver at a high price, and the issuance of silver certificates to add to the supply of money. Still others believe that what is needed is a stimulus to the use of money through some system of stamp scrip that would result in a penalty on money that is not promptly spent. Another group of measures aims to correct conditions by changing the ownership and management of the Federal Reserve System and by requiring 100 per cent reserves against demand deposits. Another proposed remedy would establish a new system of banks to supply intermediate and long-time capital, particularly to small business.

Still others think that the monetary system now in existence should be corrected by the elimination of silver purchases, by the establishment of a fixed price for gold and by the reintroduction of gold coins into circulation. They contend that the elimination of currency uncertainties would restore confidence and result in economic revival. There are some who believe that the flow of capital into enterprise is retarded by what they consider as an artificially low level of money rates and others who argue that the Government absorbs too large a part of the country's savings through the sale of its own securities.

These opinions and proposals cover a wide range, and seek legislative action on matters of vital importance to the welfare of the nation.

The Board at different times in response to Committee requests has stated its position on individual proposals. While it has expressed disagreement with some of the measures which in its judgment would not accomplish the purposes for which they are intended, it recognizes the importance of making every effort to achieve the underlying objective, which, broadly speaking, is the fullest practicable utilization of the country's human and material resources. It has been the Board's view that since the money supply, however measured, is larger now than at any previous time, the difficulty must lie not in the scarcity but in the inadequate use of the existing supply. The Board would welcome a reexamination

of its own conclusions and a study of the factors that obstruct the flow of money through the channels of investment, production, and distribution.

In earlier statements the Board has pointed out that there are many phases of economic life that are not susceptible of control through monetary means alone; it has taken the position that stability in production and employment is a more satisfactory objective of public policy than price stability alone, and that concerted action by many agencies within and outside the Government, which have an influence on economic activity, is essential for the achievement of recovery and an adequate national income.

Notwithstanding the inherent limitations upon the influence of monetary and credit action on economic conditions, the Board is convinced of the importance of such action at certain times, and feels strongly the necessity of having the mechanism of monetary and banking control and supervision at all times in condition to function effectively in the public interest. In its Annual Report for 1938 the Board pointed out that our present system of regulation and supervision over money and banking, notwithstanding many improvements made in recent years, is still defective in many respects. The 15,000 banks that exist today are subject to conflicting and overlapping laws and jurisdictions, which result in discriminations against certain groups of banks and in a confusion of duties and responsibilities among different Federal and State authorities.

Federal supervision of banking itself is distributed among several governmental agencies without clear delimitation of the respective powers and responsibilities of these agencies.

On the more strictly monetary side the powers over the supply of currency and bank reserves are divided between the United States Treasury and the Federal Reserve System. While it appears to have been the intent of Congress that the Federal Reserve System have responsibility for regulating the supply and cost of money, including currency and bank deposits, the powers over this supply possessed by the Treasury now outweigh those of the System.

In brief, the effectiveness of our banking and monetary mechanism is weakened by the fact that there is no clear division of responsibility, no definite determination of authority over money and credit within the Federal Government itself, and that there is conflict of jurisdiction and supervision over the banks through which, in the existing system, monetary and credit powers must operate.

In view of these circumstances, the Board urges that Congress through appropriate committees or a joint committee take steps to determine the objectives by which monetary and banking authorities shall be guided, the validity of different plans and views on monetary and credit matters proposed or held by agencies within or outside the Government, including the Board's own positions, and the character of governmental machinery that would be

best calculated to carry out the purposes of Congress in this important field. Such a broad approach would enable Congress to consider all the proposals in relation to each other, and to other important problems of our economic system. Piecemeal consideration of various proposals is a slow, cumbersome, and unsatisfactory process.

Recognition by Congress of the limits within which monetary and credit action can be effective and determination of the mechanism and policies that would contribute most to its effectiveness will clear the way for consideration of broader aspects of a constructive program for further economic recovery and stability.

R-442

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1939.

Dear Sir:

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

NUBERA - Treasury Bills to be dated April 12, 1939, and to mature July 12, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-443

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1939.

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal Reserve notes from March 1 to March 31, 1939.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-443-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
March 1 to March 31, 1939.

Federal Reserve Notes, Series 1934.

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

895,200 sheets @ $92.00 per M $82,340.00

R-444

181

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 12, 1939

Dear Sir:

In 1935, following a suggestion made by one of the Reserve banks, advice was requested from each Federal Reserve bank as to whether it would prefer to have the spacing on the daily balance sheet, Form F. R. 34, changed so that reports thereon might readily be prepared on an adding machine. The replies to the above-mentioned request indicated that a majority of the banks were not, at that time, in favor of changing the spacing on Form F. R. 34.

Recently the suggestion was again received that the spacing on Form F. R. 34 be changed to adapt it for use on an adding machine and in looking into this matter it appears that by providing for only two amount columns, one for assets and one for liabilities, the form may be revised to accommodate adding machine type without changing its present size. It also appears that by eliminating the columnar ruling for dollars and cents, reports may be prepared equally as well on an adding machine, typewriter, or bookkeeping machine.

There is enclosed a sample copy of the face of the 1939 edition of Form F. R. 34 ruled as outlined above and it will be appreciated if you will advise us whether you would favor the suggested ruling or any modification thereof. The changed ruling, if adopted, would be used in the 1940 edition of Form F. R. 34. The enclosed sample merely illustrates the suggested ruling and does not reflect any other changes which may be made in the form.

Form F. R. 34 is usually sent to the printer each year about November 10, and we would be pleased to receive annually before that time any suggestions which you might care to make with respect to the form, including those relating to the addition, elimination, consolidation or rearrangement of the items appearing thereon.

Very truly yours,

E. L. Smead

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

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-445

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 14, 1939

Dear Sir:

In order to bring up to date the Manual of Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements by the Federal Reserve banks, and to incorporate therein a number of other changes which have been under consideration for some time, the following pages of the Instructions have been tentatively revised, and copies thereof are enclosed herewith.

Page 1	Page 17	Page 31	Page 38
" 4	" 20	" 33	" 38a
" 5	" 27	" 34	" 38b
" 8	" 28	" 35	" 39
" 9	" 29	" 36	" 42
" 16	" 30	" 37	

You will note that pages 38a and 38b incorporate in the Manual instructions regarding reserves for estimated losses and reserves for contingencies, most of which were contained in the Board's letter S-50 of December 6, 1937, and that provision is made for accrual of earnings and expenses when in substantial amount at least as of each Wednesday and the last day of each month.

It will be appreciated if you will have the pages reviewed by your Staff and advise us at your early convenience of any changes they wish to suggest therein.

Very truly yours,

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

Enclosures 3

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-446

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 15, 1939.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of March 1939.

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

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-446-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF MARCH, 1939

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	27,042	686	27,728	$ 572.79	$ 289.06	$ 283.73
New York	82,619	-	82,619	1,706.72	1,041.56	665.16
Philadelphia	23,759	706	24,465	505.39	243.13	262.26
Cleveland	36,050	713	36,763	759.44	236.61	522.83
Richmond	27,362	686	28,048	579.41	205.40	374.01
Atlanta	44,807	686	45,493	939.78	297.44	642.34
Chicago	66,800	1,062	67,862	1,401.87	1,345.31	56.56
St. Louis	47,870	686	48,556	1,003.05	252.73	750.32
Minneapolis	20,687	685	21,372	441.50	187.27	254.23
Kansas City	47,197	696	47,893	989.36	259.21	730.15
Dallas	36,837	843	37,680	778.38	280.96	497.42
San Francisco	50,267	732	50,999	1,053.52	375.61	677.91
Board of Governors	272,014	-	272,014	5,619.18	11,336.10	-
Total	783,311	8,181	791,492	$16,350.39	$16,350.39	$5,716.92

(1) Based on cost per word ($.020657682) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies ($1,585.30) and wire rental ($9,750.80). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 15, 1939

Dear Sir:

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

NUBEVY - Treasury Bills to be dated April 19, 1939, and to mature July 19, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 18, 1939

Dear Sir:

On Tuesday, May 30, 1939, Memorial Day, there will be neither transit nor Federal Reserve note clearing and the books of the Board's Interdistrict Settlement Fund will be closed. The offices of the Board of Governors and all Federal Reserve banks and branches will be closed on that day, except the Federal Reserve Bank of Atlanta and its branches at Birmingham, Jacksonville and New Orleans.

The Board is further advised that holidays also will be observed by the Charlotte Branch of the Federal Reserve Bank of Richmond during the month of May as follows:

Wednesday, May 10	Confederate Memorial Day
Saturday, May 20	Mecklenburg Independence Day

Transit clearing credits for the Charlotte Branch on May 10 and 20 should be included in your credits for the following business days.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-449

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 1939.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that, beginning Monday, May 1, and ending Saturday, September 23, the following Federal Reserve banks and branches will operate under daylight saving time:

Boston
New York
  Buffalo
Philadelphia
  Pittsburgh
Atlanta
Chicago

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-450

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 22, 1939

Dear Sir:

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

NUBFAX - Treasury Bills to be dated April 26, 1939, and to mature July 26, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Wednesday, April 26, 1939.

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

In April manufacturing production was maintained at about the same rate as in March but mineral production declined, reflecting a sharp reduction in output of bituminous coal pending settlement of negotiations between operators and miners. In the first quarter of this year industrial output, after a rapid rise in the latter half of 1938, increased less than is usual at this season.

Production

Volume of industrial production showed little change in March and the Board's seasonally adjusted index remained at 98 per cent of the 1923-1925 average. The index for the first quarter averaged 99, compared with 101 in the final quarter of last year. Activity at steel mills in March was at 54 per cent of capacity, a slightly higher level than in January and February. Automobile production increased less than seasonally; retail sales of cars continued to fluctuate around a level considerably higher than last year but lower than in 1936 and 1937. Dealers' stocks of new cars began to decline in March, following an increase to a seasonally high level. Activity in the machinery industries increased further in March,

continuing the rise that began last summer. Lumber production increased less than seasonally from the relatively low level of other recent months.

Production of nondurable goods in March continued at about the level that has prevailed since last autumn. In the woolen textile industry activity showed a decrease from the high level of recent months, while at cotton mills and shoe factories output was maintained in large volume. At meat-packing establishments and sugar refineries increases in activity were reported, following earlier declines.

Value of construction contract awards increased in March, according to F. W. Dodge Corporation figures, reflecting a seasonal rise in residential and other private building. Awards for public projects showed little change.

In the first three weeks of April bituminous coal production declined to a low level as most mines were closed, pending the settlement of biennial contract negotiations between mine operators and workers. Steel ingot production was reduced somewhat, averaging about 52 per cent of capacity, and automobile production showed little change from the rate reached in the latter part of March.

Distribution

Sales at department stores and mail order houses increased somewhat more than seasonally in March, while variety store sales showed about the usual rise. For the first quarter as a whole retail sales were in about the same volume as in the final quarter of 1938, after allowance for seasonal changes.

Freight-car loadings showed less than the customary advance from February to March as loadings of coal declined and shipments of miscellaneous freight increased less than seasonally. In the first half of April there was a marked decrease in freight traffic, reflecting in large part a sharp decline in coal shipments.

Commodity prices

Prices of steel scrap, copper, hides, and some other industrial raw materials declined from the middle of March to the third week of April, and there were decreases also in prices of livestock and dairy products. Silk prices rose considerably. The general level of wholesale prices, as measured by the index of the Bureau of Labor Statistics, declined to 76 per cent of the 1926 average as compared with 77 in the middle of March and at the beginning of the year.

Bank credit

Reflecting continued heavy gold imports and Treasury disbursements from its balances at the Reserve banks, member bank reserves and deposits increased sharply during the four weeks ending April 19. Excess reserves rose to a record high level of $4,000,000,000. Total loans and investments at banks in 101 leading cities, which had shown little change during March, increased somewhat during the first three weeks of April, reflecting principally continued purchases of United States Government obligations by New York City banks. Loans to brokers and dealers in securities declined.

Money rates and security prices

Prices of Government bonds and of other bonds of highest grades

continued firm at high levels during March and the first three weeks of April, while prices of the lower-grade corporate bonds and of corporate stocks declined. The average discount rate on new issues of 91-day Treasury bills continued at a low level and other open-market rates remained unchanged.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 26, 1939.

Dear Sir:

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

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-452-a

April 24, 1939

TO The Board of Governors

SUBJECT: Summary of Bank Relations Reports

FROM Mr. Hammond, Division of Bank Operations

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

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

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

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

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

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

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

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

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

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

BOSTON

Boston reported no visits were made to banks in March.

NEW YORK

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

Essex County, New Jersey

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

Hudson County, New Jersey

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

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

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

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

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

Summary of Preferred Capital Issues

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

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

PHILADELPHIA

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

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

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

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

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

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

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

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

CLEVELAND

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

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

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

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

RICHMOND

Baltimore, Maryland

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

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

Competition for loans is keen, particularly because of the activities of representatives of large New York banks who solicit business in the Baltimore territory. Loan rates of local banks range from 1½ per cent to 6 per cent. One banker, referring to outside competition, remarked that "---this territory is now being combed by representatives of New York banks, and it is said that, where a good borrower can be located, he can practically write his own ticket."

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

Northeastern North Carolina

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

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

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

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

Western South Carolina

Banks report competition with New York banks for local cotton mill paper, with the result that the rate now runs from 1½ to 2 per cent. Most banks report a poor volume of loans and have the impression that farmers have, in some manner, gotten more or less onto a cash basis. Doubtless the subsidy payments have been a factor. Some funds are obtained from Federal lending agencies, if necessary, in order to purchase fertilizer for cash. In any event agricultural operations appear to be increasingly financed without resort to the small banks. Perhaps mention should be made of the stated intention of one non-par bank with deposits in excess of $1,000,000 to somehow keep them below that figure rather than become a member bank in order to retain deposit insurance.

ATLANTA

Birmingham, Alabama

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

Southeastern Louisiana.

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

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

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

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

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

Southwestern Louisiana.

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

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

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

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

CHICAGO

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

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

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

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

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

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

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

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

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

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

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

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

ST. LOUIS

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

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

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

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

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

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

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

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

MINNEAPOLIS

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

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

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

Southeastern Minnesota.

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

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

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

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

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

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

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

Southern Minnesota.

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

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

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

KANSAS CITY

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

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

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

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

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

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

DALLAS

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

West-Central Texas.

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

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

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

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

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

Southwest Texas.

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

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

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

SAN FRANCISCO

Santa Clara Valley.

Conditions throughout the valley were reported to be

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

Lower Sacramento Valley.

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

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

March - 1939

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

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-453

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 29, 1939

Dear Sir:

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

NUBFEL - Treasury bills to be dated May 3, 1939, and to mature August 2, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-454

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 1, 1939.

Dear Sir:

Among the changes in the form of the par list which were made beginning with the January 1, 1932, issue was the elimination of a footnote reading "Nonmember banks collected through intermediary town" which, in the January 1, 1931, issue, was appended to about 400 places listed in the par list, nearly all in the Chicago Federal Reserve district.

Recently one of the Federal Reserve banks experienced some delay in the return of dishonored items and upon inquiry found that the delay was due to the fact that the items were collected through an intermediary town. The Reserve bank thought that it would be desirable for all banks using the Federal Reserve check collection facilities to know that checks drawn on certain towns are collected through intermediary towns, and upon inquiry it developed that most of the Federal Reserve banks favor the inclusion of information indicating such instances in the par list. It will be appreciated, therefore, if you will

1. Furnish the Board with a copy of the January 1, 1939, par list, after having indicated thereon all places in your district checks on which are collected through intermediary points,

2. Advise the Board what notes, if any, you feel should be included in the par list to indicate such indirect collection of checks on nonmember par banks, and

3. Furnish the Board with a memorandum describing briefly the procedure followed in effecting such indirect collection of checks.

In the present par list there is a headnote under Michigan to the effect that checks on Michigan banks in the Seventh District outside of Detroit may be forwarded either to the Federal Reserve

Bank of Chicago or to the Detroit Branch, and headnotes appear under Arkansas, Indiana, and Missouri with respect to optional collection facilities for checks on certain points in those States. It will be appreciated if you will advise whether checks on any points in your district may be forwarded either to your head office or one of your branches. If so, please advise us of the optional collection facilities applicable to such points, also what notes, if any, you feel should be included in the par list to indicate such optional collection facilities.

Very truly yours,

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

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 1, 1939.

Dear Sir:

The Committee of Counsel designated by the Chairman of the Conference of Presidents recommended to the Standing Committee on Collections on January 11, 1939:

> "That means be adopted to make it clear that the 'Terms and Conditions of Collection' set forth in Section V of Regulation J and in the cash and noncash collection circulars apply to items sent by one Federal Reserve Bank to another as well as to items sent to Federal Reserve Banks by member banks and nonmember clearing banks. (A form of suggested provision for these circulars is hereto attached and marked Exhibit B.) Pending the inclusion of provisions to this end in the cash and noncash collection circulars, it is recommended that letters to this effect be exchanged between Federal Reserve Banks. (A form of suggested letter for this purpose is hereto attached and marked Exhibit C.)"

This recommendation was approved by the Standing Committee on Collections and subsequently, on March 6, 1939, was approved by the Presidents' Conference.

However, as a result of certain questions which were raised regarding this proposal the Committee of Counsel again considered the matter at a recent meeting in Washington and, on April 21, 1939, made the following recommendation to the Standing Committee on Collections:

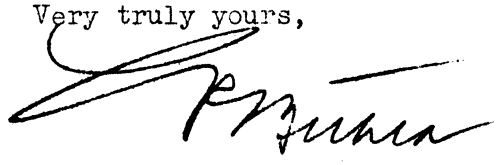
> "That the proposed amendment to the cash and noncash collection circulars of the Federal Reserve banks suggested in paragraph (3) of the recommendations of the Committee of Counsel on January

11, 1939, and embodied in Exhibit B of those recommendations be not adopted but that the Federal Reserve banks exchange letters in the amended form attached hereto marked Exhibit 2."

This recommendation was considered by the Standing Committee on Collections at its meetings here on April 20-22, 1939, and it is understood that the amended form of letter was satisfactory to the Committee. While the language of the amended form of the proposed letter differs somewhat from that of the draft attached to the recommendation of January 11, 1939, these differences are largely matters of form and make no material change in the effect of the letter.

You are advised that the Board of Governors is of the opinion that the letter in the form recommended by the Committee of Counsel on April 21, 1939, a copy of which is attached hereto, is satisfactory and the Board has no suggestions to offer with reference thereto.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Letter proposed by Committee of Counsel to be exchanged between Federal Reserve banks

To - Federal Reserve Bank of _____
Federal Reserve Bank of _____
etc.

(Name all eleven Federal Reserve banks to which letter is addressed.)

Gentlemen:

We are writing this letter, pursuant to the recommendation of the Standing Committee on Collections of the Presidents' Conference, made after consultation with a Committee of Federal Reserve Bank Counsel at the joint meeting of such committees on January 9, January 10, and January 11, 1939, and approved by the Presidents' Conference at its meeting on March 6, 1939, to confirm our understanding and agreement with the other Federal Reserve banks that the terms and conditions of collection set forth in the regulations of the Board of Governors of the Federal Reserve System and the circulars of the Federal Reserve banks, now or hereafter in effect, relating to the collection of cash and noncash items, apply, as between Federal Reserve banks, to items sent by one Federal Reserve bank to another and also to items sent to Federal Reserve banks by member and nonmember clearing banks in other districts.

Very truly yours,

FEDERAL RESERVE BANK OF _____

By_____
President.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-456

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 3, 1939

Dear Sir:

The Committee of Counsel, designated by the Chairman of the Conference of Presidents, recommended to the Standing Committee on Collections on January 11, 1939, that the Board of Governors issue a regulation covering the collection of noncash items. This recommendation was approved by the Standing Committee on Collections and subsequently, on March 6, 1939, was approved by the Conference of Presidents.

Pursuant to the recommendation, a preliminary draft of a regulation covering the collection of noncash items was prepared by the Board's Counsel and submitted to Counsel for all the Federal Reserve banks and to the Standing Committee on Collections early in April. This preliminary draft was considered by the Committee of Counsel at its meeting in Washington April 20-22, and the Committee submitted the following recommendation on this subject to the Standing Committee on Collections:

> "The Committee of Counsel submits herewith for the consideration of the Standing Committee on Collections a a revised draft (Exhibit 3 attached) of the proposed new regulation relating to 'collection of noncash items'.
>
> "While this draft has necessarily been somewhat hurriedly prepared, Counsel are of the opinion that in substance it is in a form which might appropriately be adopted, except that there is some disagreement among Counsel as to the advisability of paragraph (5). This paragraph deals with a matter which is essentially one of policy. If the Standing Committee on Collections should be of the opinion that it would be good policy to adopt paragraph (5), the Committee of Counsel believe that the language used in that paragraph is substantially appropriate."

The Standing Committee on Collections discussed the revised draft of the proposed regulation, and it was suggested that the Board of Governors submit the revised draft to all of the Federal Reserve banks for review.

There is enclosed herewith a draft of the proposed regulation, as revised by the Committee of Counsel with some changes suggested by the Standing Committee on Collections. There is also enclosed a copy of paragraph (5) mentioned in the recommendation of the Committee of Counsel (designated as Exhibit 4 attached to the Committee's recommendation) but omitted from the revised draft of the regulation because the Standing Committee on Collections felt that it should not be included. It will be appreciated if you will give consideration to the proposed regulation in consultation with your Counsel and submit to the Board not later than May 31, 1939, any comments or suggestions that you may consider advisable.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-456-a

April 21, 1939

REGULATION ___

Approved, effective , 1939.

COLLECTION OF NONCASH ITEMS

AUTHORITY FOR REGULATION

This regulation is based upon and issued pursuant to the provisions of subsection (i) of section 11, the first paragraph of section 13, and the 14th and 15th paragraphs of section 16 of the Federal Reserve Act.

SECTION 1. DEFINITION OF NONCASH ITEMS

As used in this regulation, the term "noncash items" means any items of the following classes when payable within the continental United States:

(1) Maturing notes, acceptances, bankers' acceptances, certificates of deposit, bills of exchange, and drafts with or without securities, bills of lading or other documents attached;

(2) Drafts and orders on savings deposits with pass books attached;

(3) Checks, drafts and other cash items which have previously been dishonored or on which special advice of

payment or dishonor is required; 1/

(4) Maturing bonds and coupons (other than obligations of the United States and its agencies which are redeemed by Federal Reserve banks as fiscal agents);

(5) State and municipal warrants, including both orders to pay addressed to officers of States and political subdivisions thereof and also any special or general obligations of States and political subdivisions thereof;

(6) All other evidences of indebtedness and orders to pay, except checks and bank drafts drawn on or payable by a nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve bank of the district in which such nonmember bank is located.2/

1/ Any check, draft, or other item which is normally handled as a cash item will not be handled as a noncash item unless special conditions require that this be done, and the Federal Reserve bank will decide whether such special conditions exist.

2/ Checks and bank drafts drawn on or payable by a nonmember bank which can not be collected at par in funds acceptable to the Federal Reserve bank of the district in which such nonmember bank is located, and which may not be received under the terms of Regulation J, likewise may not be received as noncash items under the terms of this regulation.

SECTION 2. RECEIPT OF ITEMS FOR COLLECTION

Each Federal Reserve bank may receive for collection noncash items from member and nonmember clearing banks in its district, from other Federal Reserve banks, and from all member and nonmember clearing banks in other Federal Reserve districts which are authorized to route direct for the credit of their respective Federal Reserve banks, subject to the terms and conditions of this regulation.

SECTION 3. TERMS OF COLLECTION

Every member or nonmember clearing bank which sends noncash items to any Federal Reserve bank for collection shall by such action be deemed: (a) To authorize the Federal Reserve banks to handle such items subject to the terms and conditions of this regulation; (b) To warrant its own authority to give the Federal Reserve banks such authority; (c) To agree to indemnify any Federal Reserve bank for any loss or expense sustained (including but not limited to attorneys' fees and expenses of litigation) resulting from the failure of such sending bank to have such authority, or resulting from such Federal Reserve bank's guaranty of prior endorsements, or resulting from any action taken by the Federal Reserve bank within the scope of its authority for the purpose of collecting such noncash items; and (d) To guarantee all prior endorsements on such items whether or not a specific guaranty is incorporated in an endorsement of the sending bank.

(1) A Federal Reserve bank will act only as agent of the bank from which it receives such noncash items and will assume no liability except for its own negligence and its guaranty of prior endorsements.

(2) A Federal Reserve bank may present such noncash items with any accompanying documents for payment direct to the person, firm or corporation on which they are drawn or by or through which they are payable or collectible, or may present them for payment or forward them for collection direct to the bank on which they are drawn, at which they are payable, or through which they are payable or collectible; or, in its discretion, may forward them to another agent with similar authority to present them for payment or forward them for collection. The bank upon which any such noncash item may be drawn, or at which the same may be payable or through which the same may be payable or collectible shall be deemed to be a proper agent for collection within the meaning of this regulation.

(3) Noncash items received by a Federal Reserve bank payable in other districts will be forwarded for collection to the Federal Reserve bank of the district in which such items are payable; except that, when in the judgment of the Federal Reserve bank the size or character of the item or other special circumstances justify such action, any such item, in the discretion of the Federal Reserve bank, may be

forwarded for collection direct to the bank on which they are drawn, at which they are payable, or through which they are payable or collectible, or may be forwarded for collection to another agent with authority to present them for payment direct to the person, firm, or corporation on which they are drawn or by or through which they are payable or collectible or to present them for payment direct to the bank on which they are drawn, at which they are payable or through which they are payable or collectible.

(4) A Federal Reserve bank may, in its discretion and at its option, accept from a drawee bank in payment of or from any collecting agent in remittance for such noncash items, cash, checks, bank drafts, transfers of funds or bank credits, or other forms of payment or remittance, acceptable to the collecting Federal Reserve bank. The Federal Reserve bank shall not be liable for the failure of a drawee bank or any agent to collect, or to pay, or remit for, such noncash items, nor for any loss resulting from the acceptance from a drawee bank or any agent, in lieu of cash, of any other form of payment or remittance authorized herein, nor for the nonpayment of, or failure to realize upon, any bank draft or other medium of payment or remittance which may be accepted from a drawee bank or any collecting agent.

(5) Bank drafts and other forms of payment or remittance received by a Federal Reserve bank in payment of or in remittance

for noncash items handled under the terms of this regulation will be collected, at the option of the Federal Reserve bank, either under the terms and conditions of this regulation or under the terms and conditions of Regulation J of the Board of Governors of the Federal Reserve System.

(6) No draft, authorization to charge, or other order, upon any reserve balance, clearing account, deposit account, or other funds of a paying, remitting, or collecting bank in the possession of a Federal Reserve bank, issued for the purpose of settling items handled under the terms of this regulation will be paid, acted upon, or honored after receipt by such Federal Reserve bank of notice of suspension or closing of such paying, remitting, or collecting bank.

(7) With respect to any noncash item sent direct by a member or nonmember clearing bank in one district to a Federal Reserve bank in another district, the relationships and the rights and liabilities existing between the member or nonmember clearing bank, the Federal Reserve bank of its district and the Federal Reserve bank to which the noncash item is sent will be the same, and the relevant provisions of this regulation will apply, as though the member or nonmember clearing bank had sent such noncash item to the Federal Reserve bank of its district with its endorsement and guaranty of prior endorsements and such Federal Reserve bank had sent the noncash item to the other Federal Reserve bank with its

endorsement and guaranty of prior endorsements.

SECTION 4. OTHER RULES

Each Federal Reserve bank may also promulgate rules not inconsistent with the terms of the law or of this regulation, governing the details of its noncash collection operations. Such rules may be set forth by each Federal Reserve bank in circulars to its member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends any noncash item to such Federal Reserve bank for collection or to any other Federal Reserve bank for the account of such Federal Reserve bank for collection.

EXHIBIT 4

The following is the paragraph (5) referred to in the report of the Committee of Counsel dated April 21, 1939. It was omitted from the proposed regulation on noncash collections as redrafted after a conference with the Standing Committee on Collections which felt that it should not be included. In order to avoid confusion, it is suggested that, if any reference is made to it in correspondence, it be referred to as "Exhibit 4" instead of "Paragraph (5)", since the attached draft of the regulation contains a different paragraph numbered (5).

(5) A Federal Reserve bank may, in its discretion and at its option, accept in payment for such noncash items from persons, firms or corporations on which they are drawn or by or through which they are payable or collectible, cash, bank drafts, bank officers' checks or checks certified by banks, acceptable to the collecting Federal Reserve bank. The Federal Reserve bank shall not be liable for any loss resulting from the acceptance of, nonpayment of, or failure to realize upon, any form of remittance the acceptance of which is authorized in this paragraph.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 8, 1939
R-457

Dear Sir:

Referring to the Board's letter R-380 of January 6, 1939, following is a statement of changes during April in the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Addition

Utah
Salt Lake City — Zion's Savings Bank and Trust Company

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 8, 1939

Dear Sir:

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

NUBFIG - Treasury bills to be dated May 10, 1939, and to mature August 9, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 9, 1939.

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal Reserve notes from April 3 to April 28, 1939.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
April 3 to April 28, 1939.

Federal Reserve Notes, Series 1934.

	$10	$20	$50	$100	$1,000	Total Sheets	Total Amount
Boston	66,000	12,000	-	-	-	78,000	$ 7,176.00
New York	188,000	20,000	30,000	30,000	3,000	271,000	24,932.00
Philadelphia	74,000	20,000	-	-	-	94,000	8,648.00
Cleveland	50,000	19,000	-	-	-	69,000	6,348.00
Richmond	44,000	22,000	-	-	-	66,000	6,072.00
Atlanta	24,000	6,000	-	-	-	30,000	2,760.00
Chicago	124,000	35,000	-	-	-	159,000	14,628.00
St. Louis	34,000	7,000	-	-	-	41,000	3,772.00
Minneapolis	19,000	6,000	-	-	-	25,000	2,300.00
Kansas City	24,000	8,000	-	-	-	32,000	2,944.00
Dallas	21,000	6,000	-	-	-	27,000	2,484.00
San Francisco	50,000	16,000	-	-	-	66,000	6,072.00
	718,000	177,000	30,000	30,000	3,000	958,000	$88,136.00

958,000 sheets @ $92.00 per M $88,136.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 9, 1939

Dear Sir:

In connection with telegraphic transactions between Federal Reserve banks covering Government securities, the following code words have been designated to cover new issues of bonds of the Home Owners' Loan Corporation:

NOWJOKE - 3/8% Bonds, Series K-1940, dated and bearing interest from May 15, 1939, due May 15, 1940;

NOWKAD - 5/8% Bonds, Series L-1941, dated and bearing interest from May 15, 1939, due May 15, 1941.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 10, 1939

Dear Sir:

The Board has adopted amendment No. 2 of Regulation T to become effective May 22, 1939. The amendment and accompanying press release, in the form attached, are being released for publication in the morning papers of Monday, May 15, 1939. It will be appreciated if your bank will send copies of each to interested persons in your district to reach them on that date or as soon thereafter as possible.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures 2

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers of
Monday, May 15, 1939. May 10, 1939.

The Board of Governors of the Federal Reserve System has amended its Regulation T, entitled "Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges", for the purpose of clarifying and liberalizing, with appropriate safeguards, provisions that relate to bona fide cash transactions in securities and to certain other classes of transactions that are not effected in margin accounts. The amendment, in tentative form, was submitted to securities exchanges and other organizations for comment last November. It becomes effective May 22, 1939, in the form attached.

The principal changes made by the amendment may be summarized as follows:

Cash sales for customers. - When a broker sells a security for a customer in a special cash account, without first having obtained the security from the customer, the broker will no longer be required by the regulation to get the security within a period of 7 days, or within any other specified period. Such a sale cannot be a short sale, since the making of a short sale by a customer in a special cash account is forbidden.

Cash purchases for customers on C.O.D. basis. - When a broker buys a security for a customer in a special cash account and the transaction is of the type in which the customer arranges to have the security delivered to him promptly against payment, the broker will no longer be

required by the regulation to obtain payment (and consequently to make delivery) within a period of 7 days. The time limit is not altogether removed, but is fixed at 35 days. The broker is not permitted, however, without the permission of an appropriate committee of a national securities exchange, to give the customer more than 7 days if the customer, for any reason whatever, has failed to settle with him promptly in full on any cash transaction during the preceding three months.

Cash transactions between brokers or dealers. - Cash transactions between one broker or dealer and another, as distinguished from transactions and relations with the general public, are relieved from the 7-day limitation, or any similar limitation, provided the transactions are in good faith for prompt settlement in accordance with the ordinary usage of the trade.

Loans by one member of an exchange to another. - A new provision has been added to the regulation to facilitate the making of a loan by one member of a national securities exchange to another member for the purpose of enabling the borrower, in his capacity as a partner in a member firm, to make a contribution of capital to his firm. Unless the loan is by one partner in a firm to another partner in the same firm, however, it must be approved, in accordance with conditions specified in the amendment, by an appropriate committee of the exchange, and one of these conditions is that if the firm is one that does any dealing in securities for its own account, the loan must not be for the purpose of enabling the firm to increase the amount of such dealing.

Amendment No. 2 of Regulation T - Effective May 22, 1939.

1. Section 4(c) of Regulation T is amended to read as follows:

"(c) Special cash account. - (1) In a special cash account, a creditor may effect for or with any customer bona fide cash transactions in securities in which the creditor may --

(A) purchase any security for, or sell any security to, any customer, provided funds sufficient for the purpose are already held in the account or the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the customer will promptly make full cash payment for the security and that the customer does not contemplate selling the security prior to making such payment; or

(B) sell any security for, or purchase any security from, any customer, provided the security is held in the account or the creditor is informed that the customer or his principal owns the security and the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the security is to be promptly deposited in the account.

(2) In case a customer purchases a security (other than an exempted security) in the special cash account and does not make full cash payment for the security within 7 days after the date on which the security is so purchased, the creditor shall, except as provided in the succeeding subdivisions of this section 4(c), promptly cancel or otherwise liquidate the transaction or the unsettled portion thereof.

(3) If the security when so purchased is an unissued security, the period applicable to the transaction under subdivision (2) of this section 4(c) shall be 7 days after the date on which the security is made available by the issuer for delivery to purchasers.

(4) If any shipment of securities is incidental to the consummation of the transaction, the period applicable to the transaction under subdivision (2) of this section 4(c) shall be deemed to be extended by the number of days required for all such shipments, but not by more than 7 days.

(5) If the creditor, acting in good faith in accordance with subdivision (1) of this section 4(c), purchases a security for a customer, or sells a security to a customer, with the understanding that he is to deliver the security promptly to the customer, and the full cash payment to be made promptly by the customer is to be made against such delivery, the creditor may at his option treat the transaction as one to which the period applicable under subdivision (2) of this section 4(c) is not the 7 days therein specified but 35 days after the date of such purchase or sale: Provided, however, That the creditor shall not so treat any purchase by a given customer if any security has been purchased by such customer at any time during the preceding 90 days in a special cash account with the creditor, and then, for any reason whatever, without having been previously paid for in full by the customer, the security has been sold in the account or delivered out to any broker or dealer: Provided, That an appropriate committee of a national securities exchange, on application of the creditor, may authorize the creditor to disregard for the purposes of the preceding proviso any given instance of the type therein described if the committee is satisfied that both creditor and customer are acting in good faith and that circumstances warrant such authorization.

(6) If an appropriate committee of a national securities exchange is satisfied that the creditor is acting in good faith in making the application, that the application relates to a bona fide cash transaction, and that exceptional circumstances warrant such action, such committee, on application of the creditor, may (A) extend any period specified in subdivision (2), (3), (4) or (5) of this section 4(c) for one or more limited periods commensurate with the circumstances, or (B), in case a security purchased by the customer in the special cash account is a registered or exempted security, authorize transfer of the transaction to a general account or special omnibus account and completion of the transaction pursuant to the provisions of this regulation relating to such an account.

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

2. Section 4(f) of Regulation T is amended by inserting the following subdivisions after subdivision (1) of said section and renumbering the succeeding subdivisions accordingly:

"(2) Make loans, and may maintain loans, to or for any partner of a firm which is a member of a national securities exchange to enable such partner to make a contribution of capital to such firm provided (A) the lender as well as the borrower is a partner in such firm, or (B) the lender as well as the borrower is a member of such exchange, the loan has the approval of an appropriate committee of the exchange, and the committee, in addition to being satisfied that the loan is not in contravention of any rule of the exchange, is satisfied that the loan is outside the ordinary course of the lender's business, and that, if the borrower's firm does any dealing in securities for its own account, the loan is not for the purpose of enabling the firm to increase the amount of such dealing;

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 12, 1939

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of April, 1939.

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

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF APRIL, 1939

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	19,904	608	20,512	$ 521.10	$ 296.58	$ 224.52
New York	56,008	-	56,008	1,422.87	1,039.82	383.05
Philadelphia	15,315	574	15,889	403.66	241.67	161.99
Cleveland	25,754	579	26,333	668.98	309.99	358.99
Richmond	20,809	574	21,383	543.23	195.92	347.31
Atlanta	36,298	574	36,872	936.72	295.15	641.57
Chicago	54,989	1,051	56,040	1,423.68	1,343.98	79.70
St. Louis	36,340	574	36,914	937.79	255.21	682.58
Minneapolis	16,200	574	16,774	426.14	185.47	240.67
Kansas City	39,396	573	39,969	1,015.40	259.21	756.19
Dallas	31,884	606	32,490	825.40	279.53	545.87
San Francisco	41,044	698	41,742	1,060.45	369.30	691.15
Board of Governors	218,862	-	218,862	5,560.13	10,673.72	-
Total	612,803	6,985	619,788	$15,745.55	$15,745.55	$5,113.59

(1) Based on cost per word ($.025404735) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies ($1,709.69) and wire rental ($8,964.03). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1939

Dear Sir:

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

NUBFOZ - Treasury bills to be dated May 17, 1939, and to mature August 16, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-465

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1939

Dear Sir:

There is attached, for your information, a copy of the Board's semiannual functional expense exhibit for the Second Half, 1938. This report has been compiled from the functional expense reports which are submitted semiannually to the Board of Governors by each Federal Reserve bank and branch.

The functional expense reports show the expenses of the Reserve banks by various "functions", such as the Check Collection function, Noncash Collection function, Currency and Coin function, etc., and also in a number of cases by "expense units". For example, the Check Collection function is broken down into several expense units such as the City Checks (Clearings) unit, the Country Checks-Outgoing unit, the Return Items unit, etc.

In the case of certain expense units a measurement of the volume of work is reported and figures are contained in the Board's exhibit showing a comparison between Reserve banks of the cost of handling the various classes of checks, currency and coin, etc., and of the number of units handled per employee per day.

From a review of the attached exhibit you will note that there are wide variations in the cost of performing like operations by the different Reserve banks. For example, the variations in the unit costs of handling country checks at the head offices may be noted by referring to the next to the last column at the bottom of page 25. The unit costs for the Currency-Receiving and Sorting unit are shown in the third from last column at the top of page 22, while those for the Government Checks unit are contained in the last column at the bottom of page 38. There are also wide variations in costs in some of the functions for which a measurement of the volume of work is not available such as the Loans, Rediscounts and Acceptances function as shown on page 18.

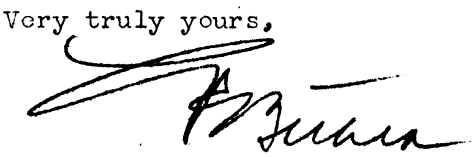
Since the Federal Reserve banks are located in cities of varying sizes and in widely separated localities and, furthermore, since they must conform in a general way to local customs

and practices in the matter of salaries, length of working day, etc., certain variations in unit costs are to be expected. It is thought, however, that studies should be made of those units in which there are wide variations in costs with the view of determining the reasons for the variations and whether they are entirely justified.

It is believed that the directors of the Federal Reserve banks would find such studies particularly helpful to them in passing upon budgets for the various departments of the bank. The Board would suggest, therefore, that if you have not already done so you consult with the President of your bank with respect to the functional expense report and initiate such studies as are thought necessary to acquaint your directors with the reasons for major differences in expenses where such expenses at your bank are substantially out of line with similar expenses at other Reserve banks.

Some of the differences shown in the expense reports may be due to a failure to properly allocate expenses to the several expense units. In this connection, representatives of the Board who are familiar with the functional expense reports have devoted some time in reviewing allocations of expenses to fiscal agency and other units and it is expected that they will continue their studies along these lines. Such studies as they may make, however, are not intended to serve the same purpose as those referred to above.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS

COPY TO BE SENT TO THE PRESIDENT OF EACH FEDERAL RESERVE BANK

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,

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 nonmember 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 1½% to 5%. Few towns borrow locally. Customer's rates range from 4½% 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 1½ 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 4½ 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 2½ 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 collateraled 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 uninsured 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 1½ per cent, but county banks will continue to pay 2 per cent and in some cases 2½ 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 2½ 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.

ATLANTA

Baton 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 into 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 safekeeping 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	1/	1	Broadcast
New York	130	41	171	13	3,570	2	1/ 65
Philadelphia	40	20	60	6	1,800	1	1/
Cleveland	139	40	179	12	1/1,735	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	1/ 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	2/2	1,000
San Francisco	68	12	80	14	1,002	--	--

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 19, 1939

Dear Sir:

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

Saturday June 3	Richmond Atlanta Birmingham Jacksonville Nashville New Orleans	Louisville Memphis Dallas El Paso Houston San Antonio	Confederate Memorial Day and Jefferson Davis' Birthday
Wednesday June 14	Philadelphia	Pittsburgh	Flag Day
Saturday June 17	Boston		Bunker Hill Day

On the dates given the offices mentioned will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices affected on each of the holidays with your credits for the following business day. No debits covering Federal Reserve note shipments for account of the Federal Reserve Bank of Philadelphia should be included in your note clearing of June 14.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 22, 1939.

Dear Sir:

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

NUBFUN - Treasury bills to be dated May 24, 1939, and to mature August 23, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-469

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1939.

Dear Sir:

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

NUBGAS - Treasury bills to be dated May 31, 1939, and to mature August 30, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1939

Dear Sir:

In connection with telegraphic transactions between Federal Reserve banks covering Government securities, the following code word has been designated to cover a new issue of bonds of the Home Owners' Loan Corporation:

NOWLOW - 1½% Bonds, Series M, 1945-47, dated and bearing interest from June 1, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Friday, May 26, 1939

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

Volume of industrial production declined sharply in April reflecting chiefly shutdowns at bituminous coal mines and reduction in activity at textile mills. Retail purchases by consumers were maintained.

Production

In April the Board's seasonally adjusted index of output at factories and mines was at 92 percent of the 1923-1925 average, compared with 98 in March and 77 a year ago.

In the steel industry production declined in April and the first three weeks of May but in the fourth week ingot output increased to 48½ percent of capacity, about the rate prevailing a month earlier. Around the middle of May substantial concessions were made in prices of some types of steel and it is reported that a considerable volume of orders for steel was placed during this period.

Automobile production in April was at about the same rate as in March, although usually there is some increase, and in May

output declined owing in part to the fact that stocks of new cars were larger than is usual at this time of the year. Plate glass production decreased sharply in April following smaller declines earlier in the year.

In the lumber industry output increased somewhat in April, while cement production, which had risen sharply in February and March, showed less than the usual increase.

Textile production declined sharply in April, particularly at woolen mills, where output had been at a high level, and in the silk goods industry where further curtailment reflected in part recent high prices for raw silk. Output of shoes showed a decrease from the high level maintained during the first quarter of this year. At flour mills and sugar refineries activity increased further, while in most other non-durable goods lines changes in output were largely seasonal in character.

Bituminous coal production was in small volume during April and the first half of May as most mines were closed pending settlement of contract negotiations between mine operators and workers. After the middle of May agreements were reached at most mines and output began to increase rapidly. Production of anthracite, which had been reduced in March, increased sharply in April and crude petroleum production rose further. In the first half of May anthracite production was maintained but petroleum output declined somewhat.

Value of construction contracts awarded, according to the F. W. Dodge Corporation, was larger in April than in March, owing

chiefly to a rise in awards for public projects. Contracts for private construction showed little change in the aggregate as private residential contracts declined, contrary to seasonal tendency, while contracts for commercial, factory, and other private construction increased. In the first half of May awards for private work increased somewhat while the volume of public contracts declined.

Employment

Employment in nonagricultural pursuits declined somewhat from the middle of March to the middle of April reflecting a sharp drop at bituminous coal mines offset in part by seasonal increases in construction and trade. At factories the number employed showed little change while pay rolls declined considerably because of fewer hours of work.

Distribution

In April distribution of commodities to consumers showed about the usual seasonal increase. The Board's adjusted index of department store sales remained at 88 percent of the 1923-1925 average, about the level that has prevailed since last autumn.

Railroad freight-car loadings declined sharply owing mainly to a reduction in shipments of coal. Loadings of miscellaneous freight showed less than the usual seasonal rise.

Commodity prices

Prices of grains and cotton advanced from the middle of April to the third week of May and there were also increases in prices of silk, hides, and bituminous coal. Prices of copper and

steel scrap, on the other hand, were reduced and substantial concessions were granted in prices of several leading steel products.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities, which had increased in April, declined during the first half of May. The decline was at New York City banks and reflected a reduction in loans to security brokers and dealers and redemption of obligations of New York State and City governments. After increasing substantially in April, demand deposits at banks in leading cities showed little change in the first half of May. Bank reserves increased further in May to a new high level.

Money rates

Prices of United States Government bonds and notes increased sharply during the last half of April and the first three weeks of May to new high levels. The average yield on long-term Treasury bonds declined from 2.34 percent on April 11 to 2.13 percent on May 22. Other money rates showed little change.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 25, 1939.

Dear Sir:

In reply to the Board's circular letter of February 15, 1939, R-408, the banks have reported a wide variety of experiences with the radio broadcast given in cooperation with local representatives of the National Emergency Council.

In practically every case the script was found to be too long; in several instances there was no opportunity for rehearsal; the timing was generally bad; and the newspapers, except in a few special instances, billed the broadcast as "Government reports" without mentioning the Federal Reserve System.

In general the public response was not very encouraging, and while most of the banks indicated that they wish to improve their public relations by every available means, including the radio, only four expressed a desire to undertake further broadcasts in cooperation with the National Emergency Council, the remainder being either undecided or opposed. However, the Board has prepared a second script which is believed to be an improvement over the first one in several respects. It is considerably shorter, for one thing, and for another it deals principally with routine operations. Each bank should decide for itself whether to broadcast the script or not, and if so, whether to do it in cooperation with NEC or under some other auspices that for special reasons might be considered more suitable. The script may be rearranged in any way that will in your opinion make it more effective.

The Board is advised that little, if anything, can be done about the timing, and since "Government reports" is a term necessarily broad enough to cover a wide variety of subjects, it is suggested that the Reserve banks could in many instances have supplementary notices published in the local papers merely by distributing to them a short announcement of their own.

There are enclosed copies of the new script and a copy of a letter under which the Board has today released the script to the National Emergency Council.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

C O P Y

R-472a

May 25, 1939.

National Emergency Council,
14th and G Streets, N. W.,
Washington, D. C.

Gentlemen:

This is to notify you of the official release of a second radio script, prepared at the suggestion of the Council, three hundred copies of which are being forwarded to you by messenger.

For your information, there is attached a copy of a letter which the Board is today sending to the Presidents of all Federal Reserve banks. It will be appreciated if you will send the Board copies of your instructions to your local representatives throughout the country in regard to the broadcasting of this program.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Enclosure

NEC STATE BROADCAST

THE FEDERAL RESERVE SYSTEM

NUMBER TWO

****

ANNOUNCER: (OPENING ANNOUNCEMENT)

NEC DIRECTOR: Mr. _____, we hear a lot about the Federal Reserve Bank of _____. Tell me, just what does a Federal Reserve bank do?

FEDERAL RESERVE: Well, Mr. _____, let me ask you a question. Have you got a five-dollar bill in your pocket?

NEC DIRECTOR: What's that? After all, you're the banker!

FEDERAL RESERVE: I am not just trying to beat you to the draw, Mr. _____. You asked me what a Federal Reserve bank does, and I might explain one of their many services by telling you how that five-dollar bill got into circulation.

NEC DIRECTOR: That's something I've always wanted to know.

FEDERAL RESERVE: Roughly speaking, there are two kinds of money in circulation -- the money that is issued directly by the United States Government, which we call Treasury currency, and the money that is issued by the Federal Reserve banks, known

as Federal Reserve notes. (Treasury currency consists mainly of silver certificates, subsidiary coins, and United States notes, which by the way are a carry-over from the greenbacks of Civil War days. Federal Reserve notes consist entirely of paper currency, mostly in ten-dollar and larger denominations, and make up about two-thirds of all the money in circulation.) Both Treasury currency and Federal Reserve notes go into circulation through the Federal Reserve banks, which as you know, act as fiscal agents for the United States Government.

NEC DIRECTOR Don't spare the details, Mr. _____. I want to know exactly how it's done. If all I have to do is to step into a Federal Reserve bank and ask for a roll of 5's, 10's, or 20's -- well, why hasn't someone told me?

FEDERAL RESERVE: It's not so easy as that, Mr. _____. Federal Reserve banks serve the public mainly through their member banks, and every member bank is required to maintain a deposit with its Federal Reserve bank equal to a stipulated proportion of its net deposit liabilities. This deposit is called a reserve account.

NEC DIRECTOR: I suppose this reserve account is in many ways similar to my checking account with my own bank.

FEDERAL RESERVE: That's right. And when a member bank wants currency, it writes a check on this account in precisely the same way that you draw a check payable to cash and present it to the teller at your own bank.

NEC DIRECTOR: And if a member's reserve account is too low at the moment to permit cash withdrawals, I suppose the balance can be built up in just about the same way that I might build up the balance in my checking account.

FEDERAL RESERVE: Yes. A member bank may send us cash, or it may send checks drawn on other banks. As a rule, numerous transactions affecting a particular member's balance come through every day; some add to its balance, while others reduce it. And if the need arises, a member bank that keeps its house in order can always borrow from the Federal Reserve bank. (As a matter of fact, Federal Reserve banks are known as lenders of last resort, which means that in almost any emergency that might arise, a member can go to its Federal Reserve bank and within reason

get whatever aid it requires.) And may I add that in lending to a member the Federal Reserve bank, in effect, converts a portion of that member's earning assets into ready funds.

NEC DIRECTOR: Do you mean cash?

FEDERAL RESERVE: Well, yes, if that is what the member bank wants. But what I really mean is that the Federal Reserve bank adds the proceeds of the loan to the member bank's reserve account, from which funds may then be withdrawn in cash, or by checks drawn in favor of third parties; and of course the member may decide for reasons of its own to carry a larger balance in its reserve account. That's up to the member bank.

NEC DIRECTOR: I suppose there is never any doubt about the Reserve banks' ability to pay out cash if the member banks demand it.

FEDERAL RESERVE: No, not the slightest. (They always keep on hand large supplies of unissued money, which they get from the Bureau of Printing and Engraving, in Washington. In one sense, of course, this unissued money is not money at all. However, when properly

secured and issued by a Federal Reserve bank, it becomes real money that can be paid out to the member banks, and then into general circulation.)

NEC DIRECTOR: Have you any idea how much currency the Federal Reserve Bank of _____ paid out last year?

FEDERAL RESERVE: Exactly $_____.

NEC DIRECTOR: Is all of it still in circulation?

FEDERAL RESERVE: Oh, no. The truth of the matter is that we usually receive from our member banks during the course of a year just about as much money as we pay out. During the Christmas season, or at harvest time, or just before holiday weekends, the public demand for cash is always heavy, and the banks anticipate this demand by securing large quantities of currency and coin from the Federal Reserve banks. As the public spends, money finds its way into stores, hotels, theaters, and filling stations, and then flows back to the commercial banks. And a bank, again, is pretty much like an individual. It wants to keep on hand enough currency to meet all the demands of its customers, but any excess above this amount is promptly deposited with its Federal Reserve bank.

NEC DIRECTOR: And then what happens to the money?

FEDERAL RESERVE: It is sorted as to kind and condition. Fit money is retained and paid out again, while the unfit is baled up, punched full of holes, and cut in two, lengthwise; the "uppers", as we say, are then shipped off to Washington, to be followed by the "lowers" when we are informed that the first shipment has reached its destination.

NEC DIRECTOR: Since money is issued and retired through the Federal Reserve banks, is it correct to say that Federal Reserve authorities regulate the volume of currency in circulation?

FEDERAL RESERVE: No, that is not correct.

NEC DIRECTOR: But if the Federal Reserve doesn't regulate the volume of currency -- and I mean pocket money -- who does?

FEDERAL RESERVE: The public.

NEC DIRECTOR: How so?

FEDERAL RESERVE: I'll explain. About 65 or 70 million people have bank accounts. It is primarily the combined decisions of these people, as they choose to hold

their spendable funds in one form or the other -- that is, in bank balances or in cash -- that determines the total volume of currency in actual circulation.

NEC DIRECTOR: I see. And I suppose you could add a few more million in order to include all the people who hold money, or goods that could be converted into money, but who for various reasons do not own bank accounts.

FEDERAL RESERVE: That's probably right.

NEC DIRECTOR: If I may push this point just one step further, I should like to ask about the poor people who not only do not have bank accounts, but who do not even have jobs. I have heard it said that these conditions are largely due to a faulty money system.

FEDERAL RESERVE: Yes, I know. And there have undoubtedly been times when that view was more or less justified. But nowadays, as I see it, the individual bears about the same relation to the money mechanism that Farmer Jones used to bear to the local grist mill. If the farmer had corn, he could always get it ground into meal. An individual who has goods, or claims to

goods through his income, can usually convert those goods or claims into cash through our money and banking system, if he happens to prefer cash to some other form of wealth.

NEC DIRECTOR: And if Farmer Jones had no corn, that was not the miller's fault.

FEDERAL RESERVE: That's right. And what an unemployed mechanic, or a bricklayer, or spinner really wants is a job that will bring him an income, just as the modern farmer wants a market in which he can sell his cotton, dairy products, pork, or apples. If they had jobs and markets, they could get money. The lack of jobs and the lack of markets are probably part of the same big problem. At any rate, I agree that there is something -- or perhaps many things -- fundamentally wrong when idle men, eager for work, are surrounded by rich natural resources, unused plant capacity, and a great accumulation of capital seeking profitable investment. However, I hadn't intended to make a speech. Let's get back to some of the other services the Federal Reserve Bank of _____ performs for this district.

NEC DIRECTOR: Very good. And geographically speaking, just what do you mean by "this district"?

FEDERAL RESERVE: The _____ district takes in _____. (And as you know, the _____ Bank has branches located at _____.)

NEC DIRECTOR: How many member banks are there in this district?

FEDERAL RESERVE: _____. And perhaps I should point out that in connection with some of their work for the Treasury, as in the sale and redemption of Government securities, Federal Reserve banks serve nonmember banks and the general public as well as member banks. (Also, they clear and collect checks for nonmember banks, under special arrangements.)

NEC DIRECTOR: I see. And now that you remind me of it, would you describe the Federal Reserve System's nation-wide collecting and clearing facilities?

FEDERAL RESERVE: Take any bank here in _____. During the course of the day it receives from its depositors checks drawn on banks in all parts of the country, but principally on local banks. Now let's divide those checks into three groups: (1) those drawn on other

banks in _____; (2) those drawn on out-of-town banks that are located in this Federal Reserve district; and (3) those drawn on banks located in, let us say, the district served by the Federal Reserve Bank of _____. Checks in the first group -- those drawn on local banks -- are cleared through the local clearing house, where messengers from all the banks gather every weekday at _____. Each messenger presents to every other messenger a bundle of checks for which his bank expects payment. This means, of course, that each messenger receives from every other messenger a bundle of checks for which his bank is expected to pay. Each bank pays, or gets paid, for the difference between the checks it delivers and the checks it receives, by appropriate debits and credits, finally, to reserve balances held with the _____ Federal Reserve Bank. Now take the second group of checks, those drawn on banks located out of town, but within our own Federal Reserve district. The bank will send those to the Federal Reserve where all the checks going to, say, a bank in _____, or _____, are assembled in one package. Collections are made again, in effect, through reserve balances held with us.

NEC DIRECTOR: I think I follow you so far, Mr. _____. But what about the checks drawn on banks in other Federal Reserve districts?

FEDERAL RESERVE: Oh, that's easy. When a local bank gets checks drawn on banks in, say, the _____ district, as it probably does every day, it sends those checks to us for collection, or, depending on the volume, it may send them directly to the Federal Reserve Bank of _____, which of course is able to effect collection right away.

NEC DIRECTOR: But how are the local banks here in _____ going to collect from the Federal Reserve Bank of _____? That's what I want to know.

FEDERAL RESERVE: The Board of Governors of the Federal Reserve System operates in Washington a device known as the Interdistrict Settlement Fund. Each Federal Reserve bank owns a share in this Fund. Therefore the Federal Reserve Bank of _____ pays the Federal Reserve Bank of _____ merely by advising the Board of Governors, over a leased-wire system, to transfer a given sum from its account with the Fund to the account of the Federal Reserve Bank of _____.

The proceeds are then credited to the reserve balance of the local member bank.

NEC DIRECTOR: So that's the modern way. Thank you very much, Mr. _____. This has been most instructive.

ANNOUNCER: (CLOSING ANNOUNCEMENT TO INCLUDE)

The Federal Reserve Bank of _____ provides currency, holds bank reserves, is prepared to make advances to its member banks, and affords a link with nation-wide check clearing, collecting and fund-transfer machinery. The twelve Federal Reserve banks together with the Board of Governors of the Federal Reserve System, in Washington, are responsible for the formation and execution of broad central banking policies that concern every American citizen. On request, the Federal Reserve Bank of _____ will be glad to furnish further information about the Federal Reserve System and the functions it performs.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1939

Dear Sir:

A personal copy of "The Federal Reserve System, Its Purposes and Functions", is being mailed to you today, and 100 copies will be sent for the use of your bank as soon as additional copies are available.

There is enclosed with this letter a list showing the initial distribution of the booklet which the Board purposes to make. Each of the embossed copies will have the name of the individual to whom it is sent stamped on the front cover. It is anticipated that the copies for members of Congress and the Washington press correspondents and financial columnists will be delivered on May 31 or June 1; that copies to the editors of daily newspapers of the country, to the schools of business, and instructors in banking and finance, and to the member banks will be mailed before the end of the first week in June; and that distribution will be completed by the middle of June.

If you have any suggestions as to further distribution of the booklet, we shall be pleased to receive them. As will be noted from the last page of the booklet, it is also available in paper covers.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-473-a

DISTRIBUTION OF COMPLIMENTARY COPIES OF "THE FEDERAL RESERVE SYSTEM"

EMBOSSED COPIES

Board Members	6
Presidents of Federal Reserve Banks	12
White House and Cabinet Members	16
Members of Congress	435
Senators	95
Clerks of House and Senate Banking and Currency Committees	2
First Vice Presidents of Federal Reserve Banks	10
Vice Presidents of Federal Reserve Banks	27
Directors of Federal Reserve Banks	102
Managing Directors of Federal Reserve Branches	24
Federal Advisory Council	13
Former Board Members	9
Government Officials and Others	76
State Bank Supervisory Officials	113
Presidents of State Bankers Associations	51
Secretaries of State Bankers Associations	51
Board Officials (Other than Board Members)	22

NOT EMBOSSED

Federal Reserve Banks	1,200
Columnists	18
Editors of Newspapers	1,611
(Local press to receive copies not embossed but to go out simultaneously with delivery to Members of Congress)	
Deans of Schools of Business	376
Instructors in Banking and Finance	1,717
All Member Banks	6,331
National Bank Examiners	250
F.D.I.C. Examiners	160
State Bank Examiners	737
Nonmember Banks	8,996
Library of Congress	77
Libraries - Public - University	3,497
Diplomatic List	18
Foreign Central Banks	61

R-474

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1939.

Dear Sir:

Advice has been received from Mr. Harrison, Chairman of the Presidents' Conference, that the report of the Standing Committee on Collections, dated April 22, 1939, has been approved by the Presidents of all Federal Reserve banks.

The Board concurs in the action of the Presidents and approves the recommendations contained in the Committee's report.

Regulation J in the revised form, a copy of which is enclosed, will be adopted by the Board when the drafts of the cash collection circulars and the time schedules referred to in the Board's letter S-157 of April 8 have been received and reviewed so that an effective date for the revised regulation may be fixed. The effective date will be sufficiently far in advance to allow for the printing of the regulation, the check collection circulars and the time schedules and their simultaneous release by all Reserve banks about two weeks in advance of the effective date.

The Board contemplates issuing a press statement on the subject of check collections at the time the amended regulation is released for publication, advance copies of which will be furnished your bank, and in the meantime it is suggested that the matter be treated as confidential.

It will be appreciated if you will forward to the Board as soon as practicable the revised time schedules between Federal Reserve bank and branch cities for its approval, together with two copies of your cash collection circular with the approved changes incorporated therein. Minor changes in wording made in Section 5 of Regulation J "Terms of Collection" since the date of the Committee's report should, of course, be incorporated in that section as printed in the collection circular.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

REGULATION J

As amended effective _____, 1939

(Superseding Regulation J, Series of 1930)

CHECK CLEARING AND COLLECTION

SECTION 1. STATUTORY PROVISIONS

Section 16 of the Federal Reserve Act authorizes the Board of Governors of the Federal Reserve System to require each Federal Reserve bank to exercise the functions of a clearing house for its member banks, and section 13 of the Federal Reserve Act, as amended by the Act approved June 21, 1917, authorizes each Federal Reserve bank to receive from any nonmember bank or trust company, solely for the purposes of exchange or of collection, deposits of current funds in lawful money, national-bank notes, Federal Reserve notes, checks and drafts payable upon presentation, or maturing notes and bills, provided such nonmember bank or trust company maintains with its Federal Reserve bank a balance sufficient to offset the items in transit held for its account by the Federal Reserve bank.

SECTION 2. GENERAL REQUIREMENTS

In pursuance of the authority vested in it under these provisions of law, the Board of Governors of the Federal Reserve System, desiring to afford both to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances, has arranged to have each Federal Reserve bank exercise the functions of a clearing house and collect checks for such of its member banks as desire to avail themselves of its privileges and for such nonmember State banks and trust companies as may maintain with the Federal Reserve bank balances sufficient to qualify them under the provisions of section 13 to send items to Federal Reserve banks for purposes of exchange or of collection. Such nonmember State banks and trust companies will hereinafter be referred to as nonmember clearing banks.

Each Federal Reserve bank shall exercise the functions of a clearing house and collect checks under the general terms and conditions hereinafter set forth, and each member bank and nonmember clearing bank shall cooperate fully in the system of check clearance and collection for which provision is herein made.

SECTION 3. CHECKS RECEIVED FOR COLLECTION

(1) Each Federal Reserve bank shall receive at par from member and nonmember clearing banks in its district, from other Federal Reserve banks, and from all member and nonmember clearing banks in other Federal Reserve districts which are authorized to route direct for the credit of their respective Federal Reserve banks, checks[1] drawn on all member and nonmember clearing banks of its district, and checks drawn on all other nonmember banks of its district which are collectible at par in funds acceptable to it.

(2) Each Federal Reserve bank may receive at par from member and nonmember clearing banks in its district, checks drawn on all member and nonmember clearing banks in other Federal Reserve districts, and checks drawn on all other nonmember banks in other Federal Reserve districts which are collectible at par in funds acceptable to the collecting Federal Reserve bank.

(3) No Federal Reserve bank shall receive on deposit or for collection any check drawn on any nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve bank.

SECTION 4. TIME SCHEDULE AND AVAILABILITY OF CREDITS

(1) Each Federal Reserve bank will publish a time schedule showing the time at which any item sent to it will be counted as reserve and become available for withdrawal or other use by the sending bank. For all checks received, the sending bank will be given immediate credit, or deferred credit, in accordance with such time schedule, and as provided below.

(2) For all such checks as are received for immediate credit in accordance with such time schedule, immediate credit, subject to final payment, will be given upon the books of the Federal Reserve bank at full face value in the reserve account or clearing account upon day of receipt, and the proceeds will at once be counted as reserve and become available for withdrawal or other use by the sending

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[1]A check is generally defined as a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to the order of a certain person therein named, or to him or his order, or to bearer, and payable on demand.

bank; provided, however, that the Federal Reserve bank may in its discretion refuse at any time to permit the withdrawal or other use of credit given for any item for which the Federal Reserve bank has not yet received payment in actually and finally collected funds.

(3) For all such checks as are received for deferred credit in accordance with such time schedule, deferred credit, subject to final payment, will be entered upon the books of the Federal Reserve bank at full face value, but the proceeds will not be counted as reserve nor become available for withdrawal or other use by the sending bank until such time as may be specified in such time schedule,[2] at which time credit will be transferred from the deferred account to the reserve account or clearing account subject to final payment and will then be counted as reserve and become available for withdrawal or other use by the sending bank; provided, however, that the Federal Reserve bank may in its discretion refuse at any time to permit the withdrawal or other use of credit given for any item for which the Federal Reserve bank has not yet received payment in actually and finally collected funds.

SECTION 5. TERMS OF COLLECTION

The Board of Governors of the Federal Reserve System hereby authorizes the Federal Reserve banks to handle such checks subject to the following terms and conditions; and each member and nonmember clearing bank which sends checks to any Federal Reserve bank for deposit or collection shall by such action be deemed (a) to authorize the Federal Reserve banks to handle such checks subject to the following terms and conditions; (b) to warrant its own authority to give the Federal Reserve banks such authority; (c) to agree to indemnify any Federal Reserve bank for any loss or expense sustained (including but not limited to attorneys' fees and expenses of litigation) resulting from the failure of such sending bank to have such authority, or resulting from such Federal Reserve bank's guaranty of prior endorsements, or resulting from any action taken by the Federal Reserve bank within the scope of its authority for the purpose of collecting such checks; and (d) to guarantee all prior endorsements on such checks whether or not a specific guaranty is incorporated in an endorsement of the sending bank.

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[2]For rules for computation of reserves and penalties for deficiencies in reserves, see Regulation D, Secs. 2 and 3.

(1) A Federal Reserve bank will act only as agent of the bank from which it receives such checks and will assume no liability except for its own negligence and its guaranty of prior endorsements.

(2) A Federal Reserve bank may present such checks for payment or send such checks for collection direct to the bank on which they are drawn or at which they are payable, or in its discretion may forward them to another agent with authority to present them for payment or send them for collection direct to the bank on which they are drawn or at which they are payable.

(3) A Federal Reserve bank may, in its discretion and at its option, either directly or through or from an agent, accept in payment of or in remittance for such checks, cash, bank drafts, transfers of funds or bank credits, or other forms of payment or remittance, acceptable to the collecting Federal Reserve bank. The Federal Reserve bank shall not be liable for the failure of the drawee bank or any agent to pay or remit for such checks, nor for any loss resulting from the acceptance from the drawee bank or any collecting agent, in lieu of cash, of any other form of payment or remittance authorized herein, nor for the nonpayment of, or failure to realize upon, any bank draft or other medium of payment or remittance which may be accepted from the drawee bank or any collecting agent.

(4) Checks received by a Federal Reserve bank which are payable in its own district will ordinarily be forwarded or presented direct to the banks on which they are drawn, and such banks will be required to remit or pay therefor at par in such one or more of the forms of payment or remittance authorized under paragraph (3) hereof as may be acceptable to the Federal Reserve bank.

(5) Checks received by a Federal Reserve bank payable in other districts will ordinarily be forwarded for collection to the Federal Reserve bank of the district in which such checks are payable; provided, however, that, where arrangements can be made satisfactory to the collecting bank or agent and to the Federal Reserve bank of the district in which such checks are payable, any such checks may be forwarded for collection direct to the bank on which they are drawn or at which they are payable, or may be forwarded for collection to another agent with authority to present them for payment direct to the bank on which they are drawn or at which they are payable. All such checks shall be handled subject to all the terms and conditions of this regulation.

(6) With respect to any check sent direct by a member or nonmember clearing bank in one district to a Federal Reserve bank in another

district, the relationships and the rights and liabilities existing between the member or nonmember clearing bank, the Federal Reserve bank of its district and the Federal Reserve bank to which the check is sent will be the same, and the relevant provisions of this regulation will apply, as though the member or nonmember clearing bank had sent such check to the Federal Reserve bank of its district with its endorsement and guaranty of prior endorsements and such Federal Reserve bank had sent the check to the other Federal Reserve bank with its endorsement and guaranty of prior endorsements.

(7) Bank drafts received by a Federal Reserve bank in payment of or in remittance for checks handled under the terms of this regulation shall likewise be handled for collection subject to all the terms and conditions of this regulation.

(8) The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned. In such event, neither the owner or holder of any such check, nor the bank which sent such check to the Federal Reserve bank for collection shall have any right of recourse upon, interest in, or right of payment from, any reserve balance, clearing account, deposit account, or other funds of the drawee bank or of any bank to which such checks have been sent for collection, in the possession of the Federal Reserve bank. No draft, authorization to charge, or other order, upon any reserve balance, clearing account, deposit account, or other funds of a paying, remitting, or collecting bank in the possession of a Federal Reserve bank, issued for the purpose of settling items handled under the terms of this regulation will be paid, acted upon, or honored after receipt by such Federal Reserve bank of notice of suspension or closing of such paying, remitting, or collecting bank.

SECTION 6. OTHER RULES AND REGULATIONS

Each Federal Reserve bank shall also promulgate rules and regulations not inconsistent with the terms of the law or of this regulation, governing the details of its check clearing and collection operations. Such rules and regulations shall be set forth by the Federal Reserve banks in their letters of instruction to their member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends any check to such Federal Reserve bank for collection or to any other Federal Reserve bank for the account of such Federal Reserve bank for collection.

R-475

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 3, 1939

Dear Sir:

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

NUBGEE - Treasury bills to be dated June 7, 1939, and to mature September 6, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-476

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For Immediate Release June 5, 1959

Statement of Chairman Eccles before the Senate Committee on Banking and Currency with reference to S. 2343.

In commenting on Senator Mead's bill (S. 2343) I thought that I could be of most service to the Committee if I began by briefly stating the problem which it is designed to meet. As I see it, there is a definite gap in our financial mechanism in respect to facilities it offers for meeting two classes of needs: (1) the short and intermediate credit needs of small businesses whose paper in present circumstances is at the borderline of bankable assets, and (2) long-time credit and capital needs of small and medium-sized existing or prospective enterprises.

In the first category belong chiefly enterprises which would be doing better if business activity were more fully restored, but which with business at its present level represent a degree of risk that banks quite rightly hesitate to undertake unassisted. They are not enterprises that have been mismanaged or ill-advised, but merely those whose business, either because it is new or because it is peculiarly affected by general business conditions or for some other similar reason, are not at this time able to secure credit from the banks. With the existing volume of unused funds, banks are eager to make all the loans they can, but their responsibilities to depositors make many of them hesitate about extending credit to concerns in this category. There no doubt exists a substantial number of cases of this kind.

The second kind of borrowers for whom additional facilities should be provided are those needing funds for periods extending for ten years or more. Ability of enterprises, and particularly of smaller ones, to obtain credit or equity or loan capital has greatly diminished in recent years. This has been due in part to the general trend toward bigger

incorporated business units which has resulted in increasing opportunity for investors throughout the country to acquire equities in nationally known enterprises, which compete with local concerns for the local investors' money. It has been due also to the prohibition of security affiliates of banks, the increase in the cost of issuing securities, the prohibition of underwriting by banks, and the almost complete elimination of local underwriters of any kind. In the 1920's small and medium-sized concerns were able to raise long term capital locally, though at a pretty high cost, while now in many instances they are unable to raise it at all, except at costs that are entirely too high.

Banks meet a part of this need, but there are some demands of a character that banks do not feel justified in supplying, either because there is too much risk involved, or because the term is too long, or in case of bigger enterprises because in some areas there are no banks with sufficient resources to meet the requirements.

It seems to me that it is to fill this two-fold need for short and intermediate term credit for borderline enterprises and for long-time credit and capital for small and medium-sized concerns that additional facilities are required.

The Mead bill proposes to meet these needs by offering through the Reconstruction Finance Corporation insurance on certain terms for 90 per cent of any loan up to $1,000,000 made by an insured bank. I am in favor of accomplishing the purpose for which the bill is designed, but I have serious doubts whether the results of the measure would not be very

disappointing. There are practical considerations which lead me to the belief that there would not be any substantial increase in bank loans as a result of the adoption of this legislation.

One weakness of the bill, in my opinion, is in the provisions regarding the distribution of losses, which differ from those contained in other insurance plans set up by Congress. Under the bill, insurance may be granted against a loss which an insured bank may sustain in excess of 10 per cent of the principal amount of the loan. Thus, for example, if a loss of $10,000 were suffered on an insured loan of $100,000, the insured bank would have to bear the entire loss and the Reconstruction Finance Corporation none. Since a bank would derive no benefit from the insurance until after it had suffered a loss equal to 10 per cent of the loan, I seriously question whether the bill in its present form would give any substantial inducement to banks to make loans which they would not make without the insurance, or which they could not make under the present plan of RFC commitments.

I have heard it suggested in connection with this bill that the banks would be eager to extend loans which could be insured under the bill because, inasmuch as their loss is limited to 10 per cent on any one loan and they may charge an interest rate of 4 per cent, the interest received on the loan by the end of two and one-half years will be 10 per cent of the amount of the loan and will thus have eliminated the possibility of any loss of principal. This reasoning ignores the fact that the interest derived by banks from their loans is the gross return

and not the net return on the investment. The two are greatly different. The cost to a bank of making and servicing a loan is substantial and in the case of a loan on an installment basis it is increased. Even during the period of the 1920's the net returns to banks on their loans and investments were only around 1-1/2 per cent per annum and at present they are averaging less than 1 per cent. It is obvious, therefore, that a bank would have to receive interest on a loan for ten years or more before it could be sure that any loss on a loan insured under this bill would be eliminated, and then it would have earned nothing on its money.

In the second place, the rate of interest proposed in the bill for insured loans is set at 4 per cent per annum, less the insurance premium, which is lower than banks normally charge on loans of this character and even on better loans than contemplated by this bill. Banks would hesitate to charge their established customers a higher rate of interest than they charge on the special loans made under the proposed bill or to reduce the rate of interest which they customarily charge. Consequently, the banks would probably not be induced to make any considerable volume of insured loans on the basis provided in the bill.

It is possible that, even if the banks did avail themselves of the opportunity to insure business loans, there would be loans, some of which they would have made in any case even though there were no way to insure them.

It is also to be noted that the bill contains no limit on the aggregate amount of insurance, so that the Government, through the agency

of the Reconstruction Finance Corporation, would be subjected to an unlimited contingent liability. This does not seem to me to be good public policy, particularly since this liability would be incurred without assurance that the fundamental purpose of the bill, to stimulate a substantial volume of loans to business, would be realized.

I also wish to suggest to the Committee that the provisions of section 5 of the bill, authorizing the rediscount and purchase and sale by Federal Reserve banks of insured loans, be eliminated, because in so far as they relate to member banks these provisions are not necessary, since Federal Reserve credit can now be obtained by member banks on any satisfactory asset, and in so far as they relate to nonmember banks, they are not desirable, because nonmember banks, not being subject to Federal Reserve rules or regulations, should not be given the same borrowing privileges as those extended to member banks. These banks should depend upon their city correspondents where they carry their balances. Furthermore, section 5 would give to this type of loan a discount privilege that is not enjoyed by obligations insured under the National Housing Act or by other sound assets.

Turning now to the fundamental problem of the inadequacy of our facilities for supplying certain kinds of capital and credit needs, I should like briefly to review the experience of the Federal Reserve banks under section 13(b), which was intended to meet these needs.

It will be recalled that the Federal Reserve banks were required in 1933 to subscribe for stock in the Federal Deposit Insurance Corporation in an amount equal to one-half of their surplus ($139,299,557). The Act of June 19, 1934, provided for loans to industry both by the Federal Reserve banks and by the Reconstruction Finance Corporation and the Secretary of the Treasury was authorized to pay to the Federal Reserve banks the amount of their Federal Deposit Insurance Corporation stock in order to assist them in making industrial loans. The Secretary entered into an agreement with the Federal Reserve banks providing for the payment to them of, roughly, one-half of the amount of the industrial loans which they made. Under the law, the Federal Reserve banks are required to pay to the Treasury annually 2 per cent, if earned, on the amount received from the Treasury.

Under this law, the Federal Reserve banks up to May 24, 1939, have executed commitments to financing institutions and direct to business enterprises amounting to $64,000,000 and have made advances of approximately $58,000,000, indicating that they have made a substantial volume of loans to business and industry. However, I believe that the authority which has been given to the Federal Reserve banks in this respect has not been sufficiently comprehensive. Many loans which might otherwise have been made have had to be declined because of restrictions in the law, such as the requirement that industrial loans be made only for "working capital" purposes and only to "established" businesses and for periods of

not more than five years. I believe that the experience of the Reconstruction Finance Corporation in this respect has been similar, though the law under which the RFC makes these loans was materially liberalized last year. It is apparent, in any case, that the problem still exists and has not been adequately met.

Realizing this, some of us, as long as two years ago, began to study the situation, in an effort to develop a practical plan for stimulating business loans, without involving expenditures by the Government or in any way affecting the budget. Briefly stated the plan is as follows:

The creation of an Industrial Loan Corporation as an integral part of the Federal Reserve System, using the Federal Reserve banks and branches as its field agents. It is my belief that this would be a most efficient and economical method since the Federal Reserve banks have offices already established in 36 cities (12 Federal Reserve banks and 24 branches) widely distributed in the various trade areas throughout the country, and are well qualified for such service because of their knowledge of business and economic conditions in their respective districts and their close contacts with local banking institutions. With this organization already in existence it would be possible to commence actual operations with a minimum of delay, and these operations could be expanded or contracted from time to time in accordance with changes in conditions. The experience gained by the Board of Governors and the Federal Reserve banks and the personnel of the System in connection with industrial loan operations during the past five years would be of great aid to them in performing this service.

The Corporation, whose board of directors might be composed of the members of the Board of Governors of the Federal Reserve System, would be authorized to provide funds for commercial and industrial enterprises through the acquisition of the obligations of such enterprises or by the purchase of preferred stock or by making commitments to do so. The amount of funds that could be supplied to any one business enterprise would be limited to $1,000,000, these advances to be made on a sound but liberal basis for a long period. Advances could be made directly by the Corporation or in cooperation with insured banks.

Out of its capital funds, which would be procured in the manner hereafter explained, the Corporation would be authorized to set aside up to $25,000,000 as an insurance fund for the purpose of granting insurance covering loans to small business enterprises. The insurance provided would differ from that proposed in the bill and would be similar to that under Title I of the National Housing Act. The insurance fund of $25,000,000 would be a revolving fund which would make possible outstanding loans of $250,000,000. This would be sufficient to meet the needs for a considerable period and would involve a fixed amount of contingent liability with no possibility of losses exceeding the $25,000,000 to be furnished by the Corporation. The insurance premium, in my judgment, should not exceed 1/2 of 1 per cent per annum on the face amount of any loan covered by the insurance and the maximum rate of interest on any such loan should not exceed 5 per cent on the outstanding balance. An insured loan would not exceed $25,000 in amount and should be amoritzed so as to be paid off within ten years.

In proposing this insurance plan my object is to meet in a liberal and practical way the needs of small business enterprises. This proposal, with its limitation of $25,000 on insured loans, in no way competes with or duplicates the proposal in the bill under consideration which provides for insurance of loans up to $1,000,000. Under this proposal the Corporation would set up an insurance reserve amounting to 10 per cent of the total insured loans, adding to this reserve the insurance premiums, and would meet out of this total reserve all losses incurred by any one lender provided they did not exceed 10 per cent of his entire insured loans. In other words, even a 100 per cent loss on a given loan would be covered by the insurance so long as the aggregate losses incurred by a lender were no larger than one-tenth of the total of his insured loans. This is unlike the insurance plan set up under the Mead bill under which the lender would stand all of a 10 per cent loss on each individual loan before the insurance would become applicable to the remaining 90 per cent.

As already indicated, the proposal would involve no additional appropriation of public funds and no increase in the budget. The capital of the proposed corporation would be derived from the return to the Federal Reserve banks by the Secretary of the Treasury of the amount subscribed by these banks in 1933 to the stock of the Federal Deposit Insurance Corporation.

The Secretary would use for the purpose that part of the increment resulting from the reduction in the weight of the gold dollar, which has been employed or is now set aside for participation in industrial advances.

The Treasury has already paid to the Federal Reserve banks under the authority in existing law about $27,500,000, and the plan would contemplate that the remainder of the amount of $139,299,557 which the Secretary now has authority to pay (or approximately $112,000,000) would be paid over to the Federal Reserve banks and by them to the Corporation. Of this amount $100,000,000 would be the capital of the Corporation, with $25,000,000 set aside for the insurance fund, and the remainder would be its paid-in surplus. The existing provisions of section 13(b) of the Federal Reserve Act authorizing industrial loans by the Federal Reserve banks would be repealed, and outstanding loans and commitments of the Federal Reserve banks under that section would be transferred to the Corporation at their book value as a part of its capital assets.

In order to obtain additional funds if needed, the Corporation would be authorized to issue debentures equal to five times its capital. While it is proposed that these debentures be guaranteed by the United States, the contingent liability which would be assumed by the Government by reason of such guarantee would be definitely limited to $500,000,000, with a cushion of $100,000,000, which is already in existence and may be expected fully to cover all the losses that can be reasonably expected to occur. It is also proposed that the debentures would have the usual tax exemption possessed by obligations of similar Government corporations, unless a policy should be established to the contrary.

It would be contemplated that so far as possible the Corporation would utilize officers and employees of the Board of Governors of the Federal Reserve System and of the Federal Reserve banks, but it would also have authority to employ additional employees if this should prove to be necessary.

Net earnings of the Corporation would be retained in surplus after making necessary provisions for such losses as the Corporation would have to risk if it is successful in accomplishing its purposes.

Upon liquidation of the Corporation, all of its capital and surplus would become the property of the United States.

The above is a brief statement of the proposal, but I would be very glad to give any further details or assistance in connection with the matter if desired by the Committee. It is my view that this proposal would go far in meeting the problem of providing additional facilities for obtaining credit and capital for such business concerns as have a legitimate need that is not supplied by existing facilities.

In making this proposal my only object is to offer what seems to me to be a practical plan for meeting the problem, to the solution of which the Mead bill is addressed. I suggest that the plan, if it is favorably received by the Committee, be incorporated into that bill. I have no interest in asking for more power in this field for the Federal Reserve System, but have suggested that its facilities be used simply because this seemed to me to be a most efficient and economical way to achieve the desired result. If the substance of the plan appeals to the

Committee but if it should wish to entrust its execution to another agency, I shall be satisfied.

If after consideration Congress should feel that it does not desire to enact a proposal of this kind, it would be my recommendation that section 13(b) of the Federal Reserve Act be repealed, because it does not operate satisfactorily in meeting the situation, and that provision be made for the orderly liquidation of outstanding loans and commitments and for the return to the Treasury of the amounts which it has paid to the Federal Reserve banks after deduction of their actual operating losses.

Finally, I feel that I should add that I do not believe that this or any other similar plan, however desirable as an improvement in the existing mechanism for facilitating the flow of funds for small business, will in itself bring about a substantial business improvement.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 6, 1939
R-477

Dear Sir:

Referring to the Board's letter R-380 of January 6, 1939, following is a statement of changes during May in the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Addition

California	
Oakland	Farmers and Merchants Savings Bank of Oakland

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-478

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 7, 1939.

Dear Sir:

In connection with telegraphic transactions between Federal Reserve banks covering Government securities, the following code word has been designated to cover a new issue of Treasury notes, Series A-1944:

NOWNIP - 3/4% Treasury Notes, Series A-1944, to be dated June 15, 1939, and to mature June 15, 1944.

Very truly yours,

S. R. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 9, 1939.

Dear Sir:

Informal advice has been received from the Bureau of Engraving and Printing that, owing to conditions existing at the Bureau, it will be impracticable for it to make delivery to the vault in full during the month of June of all Federal Reserve note printings scheduled for delivery during the remainder of the fiscal year 1939. Completion of deliveries under the 1939 printing schedule will be made early in the fiscal year 1940.

This program of the Bureau should not in any way affect the printing program for Federal Reserve notes for the fiscal year 1940. The Bureau will, of course, make prompt delivery of notes of any denomination for any Federal Reserve bank should the need therefor arise.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS

R-480

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 10, 1939.

Dear Sir:

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

NUBGIL - Treasury bills to be dated June 14, 1939, and to mature September 13, 1939.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 15, 1939

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of May, 1939.

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

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-481-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF MAY, 1939

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	23,950	622	24,572	$ 534.84	$ 347.95	$ 186.89
New York	67,997	-	67,997	1,480.04	1,032.50	447.54
Philadelphia	17,897	621	18,518	403.07	253.67	149.40
Cleveland	28,243	625	28,868	628.35	216.08	412.27
Richmond	24,260	621	24,881	541.57	195.42	346.15
Atlanta	42,830	621	43,451	945.76	298.45	647.31
Chicago	61,623	1,159	62,782	1,366.53	1,297.31	69.22
St. Louis	41,087	621	41,708	907.83	245.12	662.71
Minneapolis	18,772	621	19,393	422.11	187.27	234.84
Kansas City	48,388	621	49,009	1,066.74	259.21	807.53
Dallas	36,641	700	37,341	812.77	272.61	540.16
San Francisco	46,167	750	46,917	1,021.21	375.93	645.28
Board of Governors	278,549	-	278,549	6,062.97	11,212.27	-
Total	736,404	7,582	743,986	$16,193.79	$16,193.79	$5,149.30

(1) Based on cost per word ($.021766256) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies ($1,599.05) and wire rental ($9,613.22). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

R-482

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 13, 1939

Dear Sir:

There is attached a copy of a resolution adopted by the Board of Governors of the Federal Reserve System levying an assessment upon the various Federal Reserve banks in an amount equal to two hundred and fifty-nine thousandths of one per cent (.00259) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve banks as of the close of business June 30, 1939, to defray the estimated expenses and salaries of the members and employees of the Board from July 1 to December 31, 1939.

The resolution also contains instructions with regard to the manner in which the payments on the assessment shall be deposited with the Federal Reserve Bank of Richmond.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-482-a

RESOLUTION LEVYING ASSESSMENT

WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides, among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning July 1, 1939, it is necessary that a fund equal to two hundred and fifty-nine thousandths of one per cent (.00259) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal Reserve banks an assessment in an amount equal to two hundred and fifty-nine thousandths of one per cent (.00259) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business June 30, 1939.

(2) Such assessment shall be paid by each Federal Reserve bank in two equal installments on July 1, 1939, and September 1, 1939, respectively.

(3) Every Federal Reserve bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Interdistrict Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided.

R-483

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 13, 1939

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal Reserve notes from May 1 to May 31, 1939.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
May 1 to May 31, 1939.

Federal Reserve Notes, Series 1934.

	$10	$20	$100	$500	$1,000	Total Sheets	Total Amount
Boston	66,000	12,000	-	-	-	78,000	$ 7,176.00
New York	188,000	20,000	40,000	3,000	4,000	255,000	23,460.00
Philadelphia	74,000	20,000	-	-	-	94,000	8,648.00
Cleveland	50,000	19,000	-	-	-	69,000	6,348.00
Richmond	44,000	22,000	-	-	-	66,000	6,072.00
Atlanta	24,000	6,000	-	-	-	30,000	2,760.00
Chicago	124,000	35,000	-	-	-	159,000	14,628.00
St. Louis	34,000	7,000	-	-	-	41,000	3,772.00
Minneapolis	19,000	6,000	-	-	-	25,000	2,300.00
Kansas City	24,000	8,000	-	-	-	32,000	2,944.00
Dallas	21,000	6,000	-	-	-	27,000	2,484.00
San Francisco	50,000	16,000	-	-	-	66,000	6,072.00
	718,000	177,000	40,000	3,000	4,000	942,000	$86,664.00

942,000 sheets @ $92.00 per M.....$86,664.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-484

June 14, 1939.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

There is inclosed, for your information, a copy of a letter from Mr. M. R. Loafman, Chief, Division of Public Debt Accounts and Audits, Treasury Department, advising the Secretary of the Treasury that an audit of the stock of completed Federal Reserve notes and Federal Reserve bank notes on hand in the Federal Reserve vault at the Bureau of Engraving and Printing was begun on May 24 and completed on May 25, 1939, as of the close of business May 23, 1939.

Mr. Loafman states that the amounts of Federal Reserve notes and Federal Reserve bank notes on hand, $2,813,100,000 of 1928 Series and $3,291,340,000 of 1934 Series Federal Reserve notes and $450,800,000 of Federal Reserve bank notes, were in agreement with the records of the Federal Reserve Issue and Redemption Division of the Comptroller's Office. Copies of detailed statements "A", "B" and "C" which accompanied Mr. Loafman's letter are also inclosed.

Very truly yours,

E. L. Smead

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

Inclosure

TO ALL FEDERAL RESERVE AGENTS

May 29, 1939.

The Honorable

The Secretary of the Treasury

Sir:

An audit has been made of the completed stocks of unissued Federal Reserve notes and Federal Reserve Bank notes charged to the Federal Reserve Vault in the Bureau of Engraving and Printing. The audit was begun May 24 and completed May 25, 1939, as of the close of business May 23, 1939.

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

Under auditor's seal in Vault No. 1, Treasury Building	
Federal Reserve notes (Series 1928).....	$2,813,100,000
Federal Reserve Bank notes (Series 1929).....	450,800,000
	3,263,900,000
On hand in Federal Reserve Vault, Bureau of Engraving and Printing	
Federal Reserve notes (Series 1934).....	3,291,340,000
Total.....	$6,555,240,000

The above balance, comprising 98,201 packages, was in agreement with the records of the Federal Reserve Vault and those of the Division of Public Debt Accounts and Audit and with the statement submitted by the Federal Reserve Issue and Redemption Division of the Office of the Comptroller of the Currency. Detailed information with respect to each of the classes of currency is reflected in the attached statements "A", "B" and "C", respectively.

The entire balance of Federal Reserve notes (Series 1928) and Federal Reserve Bank notes (Series 1929) have been under the auditor's seal

since 1937 at which time they were package counted and the seals inspected and no further inspection was made in connection with this audit except to inspect the seal on the compartment in Vault No. 1.

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

Prior to beginning the audit, the Chief of the Secret Service was notified and a representative of his office was present on May 24 and 25, 1939.

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

Respectfully submitted:

(Signed) M. R. Loafman.

Chief, Division of Public Debt Accounts and Audit.

STATEMENT "A"

FEDERAL RESERVE NOTES (SERIES 1928) ON HAND AS DISCLOSED BY AUDIT
AS OF MAY 23, 1939.
(IN THOUSANDS OF DOLLARS)

R-484b

BANK	5's	10's	20's	50's	100's	500's	1,000's	5,000's	10,000's	TOTAL
Boston	$ 47,880	$.....	$ 46,560	$50,400	$ 50,400	$ 30,000	$ 30,000	$ 2,000	$.....	$ 257,240
New York	87,560	.....	25,200	30,000	87,600	64,800	54,400	.....	6,000	355,560
Philadelphia . .	36,780	15,160	50,320	75,000	78,000	42,000	50,400	.....	.....	347,660
Cleveland . . .	37,040	19,120	107,440	41,400	28,400	39,300	31,600	6,000	.....	310,300
Richmond	22,340	.....	.....	41,600	27,200	28,500	21,000	9,000	10,000	159,640
Atlanta	6,760	9,520	36,720	23,200	20,000	19,600	16,400	4,000	9,320	145,520
Chicago	65,280	.....	114,000	88,200	96,800	108,900	135,200	16,000	20,000	644,380
St. Louis . . .	.....	.....	8,480	19,200	24,800	18,400	16,200	.....	.....	87,080
Minneapolis . .	7,180	2,200	34,080	12,000	22,400	13,300	13,000	.....	.....	104,160
Kansas City . .	27,640	.....	26,720	22,600	26,000	25,500	23,600	.....	.....	152,060
Dallas	7,760	9,240	22,640	22,600	20,000	24,600	23,400	1,000	2,000	133,240
San Francisco .	12,260	.....	13,440	11,800	26,400	21,600	17,200	3,720	9,840	116,260
TOTAL	$358,480	$55,240	$485,600	$438,000	$508,000	$436,500	$432,400	$41,720	$57,160	$2,813,100

These notes are in Vault No. 1, Main Treasury Building, under auditor's seal.

STATEMENT "B"

FEDERAL RESERVE NOTES (SERIES 1934) ON HAND AS DISCLOSED BY AUDIT
AS OF MAY 23, 1939
(IN THOUSANDS OF DOLLARS)

R-484c

BANK	5's	10's	20's	50's	100's	500's	1,000's	5,000's	10,000's	TOTAL
Boston	$ 25,200	$ 116,400	$ 74,400	$ 27,800	$ 49,200	$ 5,200	$ 4,400	$ 6,000	$ 2,000	$ 310,600
New York	35,780	226,680	135,920	55,000	170,800	39,900	25,600	8,000	12,000	709,680
Philadelphia . .	27,600	119,360	86,880	35,200	38,800	5,600	10,200	.....	.....	323,640
Cleveland . . .	11,000	48,560	101,200	30,600	16,400	2,400	3,000	4,000	8,000	225,160
Richmond	16,960	55,680	83,680	16,800	21,200	8,700	8,800	5,000	.....	216,820
Atlanta	8,260	57,120	33,680	9,600	21,200	7,500	18,200	5,000	4,000	164,560
Chicago	39,660	187,560	134,400	26,600	39,600	17,000	15,200	6,000	6,000	472,020
St. Louis . . .	33,140	55,720	47,840	6,600	25,200	6,400	7,600	4,000	4,000	190,500
Minneapolis . .	19,600	47,080	52,240	4,400	13,600	3,700	2,800	.....	.....	143,420
Kansas City . .	11,700	50,560	52,560	5,800	23,600	5,300	12,600	6,000	4,000	172,120
Dallas	4,000	23,360	17,520	3,000	8,000	7,600	7,600	5,000	4,000	80,080
San Francisco. .	37,420	68,120	78,400	12,600	44,800	11,400	15,000	9,000	6,000	282,740
TOTAL	$270,320	$1,056,200	$898,720	$234,000	$472,400	$120,700	$131,000	$58,000	$50,000	$3,291,340

These notes are on hand in the Federal Reserve Vault in the Bureau of Engraving and Printing.

STATEMENT "C"

FEDERAL RESERVE BANK NOTES (SERIES 1929) ON HAND AS DISCLOSED BY AUDIT
AS OF MAY 23, 1939.
(IN THOUSANDS OF DOLLARS)

R-484d

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

These notes are in Vault No. 1, Main Treasury Building, under auditor's seal.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-485

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 15, 1939

Dear Sir:

In reviewing the allocation of service charges by some of the Federal Reserve banks to the units of the Fiscal Agency, Custodianship, and Depositary function on Form E, we find that the ratio of service charges to total charges varies substantially between Federal Reserve banks. To complete our review of this matter we should like to obtain additional figures called for in the attached forms.

It will be noted that the forms provide for a classification of the expenses of the Fiscal Agency, Custodianship, and Depositary function for the first and second halves of 1938, as to "Direct" expenses and "Service" charges, the two together adding to the total expense reported on Form E for each unit.

It will be appreciated if you will furnish us with the figures called for in the attached forms at your early convenience.

Very truly yours,

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

Enclosures

TO PRESIDENTS OF ALL BANKS EXCEPT CLEVELAND, CHICAGO AND SAN FRANCISCO

FEDERAL RESERVE BANK OF (HEAD OFFICE ONLY)

EXPENSES OF FISCAL AGENCY, CUSTODIANSHIP, AND DEPOSITARY FUNCTION*
FIRST HALF, 1938
(Figures for units not provided for should be shown in separate memoranda)

	Current Issues	Adj. Serv. Bonds	Uncurrent Issues	Govt. Checks	Work Relief Checks	Govt. Coupons	Treas. Gen'l. Acct.	Foreign Exchange	Cert. of For. Exch. Rates & Purchasing For. Exch.	For. Exch. Gold & Silver Acts.	Safekeeping Govt. Officials
"Direct" Expenses											
Salaries -- Officers											
Salaries -- Employees											
Retire. Syst. Contr.											
Post. & Ship. Chgs.											
Print., Sta. & Supp.											
Tele. and telegraph											
Furn. & Equip.											
Space											
All other											
"Service" charges											
Personnel Maintenance											
Medical											
Pur. & Stock Room											
Coding											
Mail & Express											
Filing & Old Records											
Prot. & Vault Maint.											
Office Boys & Pages											
Equipment Repairs											
Loans, Redis. & Accept.											
Gen. Books & Expend.											
Planning											
Auditing											
Total serv. chgs.											
Total expenses of unit											

*Exclusive of charges for space assigned to "Depositary" and "Other" operations.

FIRST HALF, 1938

	Pur. & sale of securities	Comp. of Currency-Insolvent Natl. Bks.	RFC	FFMC	FLB	FICB	PWA	FHLB and HOLC	CCC	FDIC	USHA
"Direct" Expenses											
Salaries -- Officers											
Salaries -- Employees											
Retire. Syst. Contr.											
Post. & Ship. Chgs.											
Print., Sta. & Supp.											
Tele. and telegraph											
Furn. & Equip.											
Space											
All other											
"Service" charges											
Personnel Maintenance											
Medical											
Pur. & Stock Room											
Coding											
Mail & Express											
Filing & Old Records											
Prot. & Vault Maint.											
Office Boys & Pages											
Equipment Repairs											
Loans, Redis. & Accept.											
Gen. Books & Expend.											
Planning											
Auditing											
Total serv. chgs.											
Total expenses of unit											

FEDERAL RESERVE BANK OF (HEAD OFFICE ONLY)

EXPENSES OF FISCAL AGENCY, CUSTODIANSHIP, AND DEPOSITARY FUNCTION*
SECOND HALF, 1938
(Figures for units not provided for should be shown in separate memoranda)

	Treas. Issues	U. S. Savings Bonds	Adj. Serv. Bonds	Govt. Checks	Work Relief Checks	Govt. Coupons	Treas. Gen'l. Acct.	For. Exchange	Cert. of For. Exch. Rates & Purchasing For. Exch.	For. Exch. Gold and Silver Acts	Safekeeping Govt. Officials
"Direct" Expenses											
Salaries -- Officers											
Salaries -- Employees											
Retire. Syst. Contr.											
Post. & Ship. Chgs.											
Print., Sta. & Supp.											
Tele. and telegraph											
Furn. & Equip.											
Space											
All other											
"Service" charges											
Personnel Maintenance											
Medical											
Pur. & Stock Room											
Coding											
Mail & Express											
Filing & Old Records											
Prot. & Vault, Maint.											
Office Boys & Pages											
Equipment Repairs											
Loans, Redis. & Accept.											
Gen. Books & Expend.											
Planning											
Auditing											
Total serv. chgs.											
Total expenses of unit											

*Exclusive of charges for space assigned to "Depositary" and "Other" operations.

R-485b

SECOND HALF, 1938

	Pur. & Sale of Securi-ties	Comp. of Currency-Insolvent Natl. Bks.	RFC	FFMC	FLB	FICB	FDIC	USHA	CCC	PWA	FHLB and HOLC
"Direct" Expenses											
Salaries - Officers											
Salaries - Employees											
Retire. Syst. Contr.											
Post. & Ship. Chgs.											
Print., Sta. & Supp.											
Tele. and telegraph											
Furn. & Equip.											
Space											
All other											
"Service" charges											
Personnel Maintenance											
Medical											
Pur. & Stock Room											
Coding											
Mail & Express											
Filing & Old Records											
Prot. & Vault. Maint.											
Office Boys & Pages											
Equipment Repairs											
Loans, Redisc. & Accept.											
Gen. Books & Expend.											
Planning											
Auditing											
Total serv. chgs.											
Total expenses of unit											

R-486

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 16, 1939

Dear Sir:

There have been forwarded to you today under separate cover copies of Form F. R. 107 to be used by State bank members in submitting their reports of earnings and dividends for the six months ending June 30, 1939. The form is unchanged from the one used in submitting reports for the six months ended December 31, 1938.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 16, 1939

Dear Sir:

On Tuesday, July 4, the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve banks and branches will be closed in observance of Independence Day.

The Board has been advised that holidays also will be observed during the month of July by the following offices:

Monday, July 3	Baltimore	Special holiday in Maryland by Governor's proclamation
Thursday, July 13	Nashville Memphis	Birthday of General Bedford Forrest
Monday, July 24	Salt Lake City	Pioneer Day

On the dates given the branches concerned will not participate in the transit clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices affected on these holidays with your credits for the following business days.

Please notify branches.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-488

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 16, 1939

Dear Sir:

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

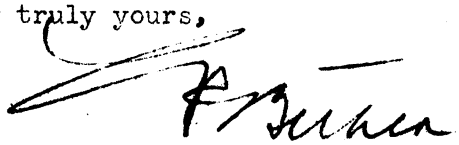
Number of copies	Form
	Form F. R. 105, Report of condition of State bank member.
	Form F. R. 105b (Schedule "O"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
	Form F. R. 105e, Publisher's copy of report of condition of State bank member.
	Form F. R. 105h, Branch bank report of condition.
	Form F. R. 220, Report of affiliate or holding company affiliate.
	Form F. R. 220a, Publisher's copy of report of affiliate or holding company affiliate.
	Form F. R. 220b, Instructions for preparation of reports of affiliates and holding company affiliates.

There has also been forwarded to you a supply of a supplement to and revision of instructions, Form F. R. 105a.

In the interest of clarity, minor changes have been made in Forms F. R. 105 and 105e in the phraseology of items 24 and 33 and in the footnote following item 30. For the same reason a footnote has been appended to the caption "Retirable value" appearing over the second column in Schedule EE and a qualifying clause has been added in parentheses following the caption of item 4 of Schedule B. In Schedule B also the description of the maturities of securities has been changed so as to make it unnecessary from year to year to change the maturity years which are now specifically named. In Schedule D item 1 has been modified somewhat in view of the Board's letter S-161 of April 26, 1939, and in Schedule F the caption of item 1(c) has been amended in the interest of clarity and in order to conform more closely with the ruling contained in the Board's letter S-147 of March 1, 1939. Changes similar to those here described are being made, in so far as applicable, in the call report forms and instructions prescribed by the Federal Deposit Insurance Corporation and the Comptroller of the Currency. None of these changes are sufficiently important to warrant calling them to the attention of State bank members except perhaps in a general way. Each State bank member should, however, be furnished with a copy of the enclosed revision of the instructions, Form F. R. 105a, comprising revised definitions of item 7 in Schedule D and item 1(c) in Schedule F.

Each State bank member which, according to Schedule DD, operates one or more domestic branches, should submit a separate report on Form F. R. 105h, in duplicate, covering each such branch as of the next call date.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosures 8

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-489

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1939

Dear Sir:

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

NUBGOB - Treasury bills to be dated June 21, 1939, and to mature September 20, 1939.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Saturday, June 24, 1939.

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

Industrial production, which had been receding on a seasonally adjusted basis during the first four months of this year, showed little change in May and increased considerably in the first three weeks of June. The advance reflected principally larger output of steel and coal, which had previously shown considerable declines.

Production

In May the Board's seasonally adjusted index of industrial production was at 92 per cent of the 1923-1925 average, the same as in April. Volume of manufacturing production declined somewhat further, owing chiefly to reductions in output of steel and automobiles, but mineral production increased as most bituminous coal mines were reopened after the middle of the month.

Steel ingot production, which had been ~~at~~ an average rate of 52 per cent of capacity in April, declined to 45 per cent in the third week of May. About this time prices of some types of steel were reduced considerably and orders were placed in substantial volume.

Subsequently steel output increased and the current rate is about 55 per cent of capacity, approximately the level maintained during the first quarter of this year.

In the automobile industry output was reduced by about one fifth at the beginning of May, and in the latter part of the month there was further curtailment partly as a result of a strike at a body plant which led to the closing of most assembly lines of one major producer. In the early part of June the strike was settled and by the middle of the month output had risen to a level higher than that prevailing during most of May. Lumber production increased further in May following less than the usual seasonal rise during the first quarter of this year.

Output of nondurable manufactures in the aggregate was at about the same rate in May as in April. At woolen mills activity increased sharply, following a decline in April, and at cotton and rayon mills output was maintained. Mill consumption of raw silk showed a further sharp decline. At meat-packing establishments output increased more than seasonally, and as in March and April was considerably larger than a year ago, reflecting a sharp increase in the number of hogs slaughtered. Flour production continued in larger volume than is usual at this season, while at sugar refineries there was a decrease in output.

Mineral production increased in May owing chiefly to the reopening of most bituminous coal mines. Anthracite production, which had been in large volume in April, declined in May, while output of

crude petroleum increased somewhat further.

Value of residential building contracts, which had shown a considerable decline in April, increased in May, according to figures of the F. W. Dodge Corporation. Public residential awards were higher owing to a greater volume of United States Housing Authority projects; private awards also increased but on a seasonally adjusted basis were below the high level reached in February and March. Contracts for both public and private nonresidential construction declined in May, following increases in the preceding two months.

Employment

Factory employment and pay rolls showed little change from the middle of April to the middle of May, according to reports for a number of States.

Distribution

Department store sales declined from April to May, while sales at variety stores and by mail order houses showed little change. In the first two weeks of June department store sales increased.

Freight-car loadings increased in the latter half of May, reflecting chiefly expansion in coal shipments. In the first half of June loadings of coal increased further and shipments of other classes of freight also were in larger volume.

Commodity prices

Prices of industrial materials, such as steel scrap, hides, wool, and print cloths, advanced somewhat from the middle of May to

the third week of June. Wheat, silk, and coal prices declined early in June, following increases in May, and there were further declines in prices of livestock and meats.

Bank credit

During the four weeks ending June 14 total loans and investments at member banks in 101 leading cities increased by $270,000,000, following a decline of $200,000,000 in the preceding four weeks. The major increase was in holdings of Treasury notes and bonds at New York City banks. Demand deposits increased sharply to new high levels both in New York and in the leading cities outside New York.

During the first three weeks of June excess reserves of member banks showed little change from the new high level of $4,300,000,000 reached on May 24. Continued gold imports largely went into earmarked gold and into balances held for foreign account at the Federal Reserve banks.

Money rates

Prices of United States Government securities, which had advanced sharply from April 11 to June 5, reaching a new high level, eased slightly during the next two weeks. The yield on the longest-term Treasury bond outstanding declined from 2.49 per cent on April 11 to 2.26 per cent on June 5 and increased to 2.32 per cent on June 19. Other money rates showed little change.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 23, 1939

Dear Sir:

In letter R-454 of May 1, 1939, the Federal Reserve banks were requested to furnish certain par list data concerning (1) banks in their respective districts, checks on which were collected through intermediary towns, and (2) available optional facilities for collecting cash items drawn on banks in their respective districts.

The replies to the Board's letter indicate, in connection with collections handled through intermediary towns, that there are about 400 points in the Seventh District where collections are made in this way, and that there are three or four such points in other districts which for special reasons the Federal Reserve banks believe it inadvisable to so designate in the Par List. Conforming with the suggestion of the Federal Reserve banks, the July 1 issue of the Par List will show the points in the Seventh District upon which collections are made through intermediary towns by a note similar to that used prior to 1932, i.e., "Nonmember bank items collected through an intermediary town".

No changes are contemplated in the forthcoming issue of the Par List with respect to optional collection facilities.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-492

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 26, 1939.

Dear Sir:

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

NUBGUD - Treasury bills to be dated June 28, 1939, and to mature September 27, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-493

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release June 26, 1939

CHANGE IN DEFINITION OF "EXECUTIVE OFFICER"

Effective July 1, 1939, the Board of Governors has amended the definition of the term "executive officer" contained in section 1(b) of its Regulation O, which relates to loans to executive officers of member banks, to read as follows:

> "(b) The term 'executive officer' means every officer of a member bank who participates or has authority to participate in the operating management of the bank or any branch thereof otherwise than in the capacity of a director of the bank, regardless of whether he has an official title or whether his title contains a designation of assistant and regardless of whether he is serving without salary or other compensation. It will be assumed that the chairman of the board, the president, every vice president, the cashier, secretary, treasurer and trust officer of a member bank are executive officers, unless it is provided by resolution of the board of directors or the bank's by-laws that any such officer is not authorized to participate in the operating management of the bank and he does not actually participate therein."

Section 22(g) of the Federal Reserve Act, which restricts loans to "executive officers" and which is implemented by the Board's Regulation O, makes a distinction between "executive officers" and other officers. On reviewing this subject, the Board concluded that the regulation should be amended to give clearer recognition to this distinction and to the view that the question whether or not a person

is an "executive officer" does not depend upon the title which he has but upon the nature of his duties. As amended, the regulation would not apply to a person, regardless of his title, who has no authority to perform and actually does not perform the duties of an executive, especially in view of the fact that the law does not restrict loans to directors who are not also executive officers.

The Board also amended its Regulation O by changing the date in section 4(a) to "June 16, 1944". This amendment was made to conform to the change recently made in the law extending until June 16, 1944, the date to which loans made by member banks to their executive officers prior to June 16, 1933, may be renewed or extended.

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,

L. P. Bethea,
Assistant Secretary.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

June 23, 1939

TO The Board of Governors

SUBJECT: Summary of Bank Relations Reports

FROM Mr. Hammond, Division of Bank Operations

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of 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 5 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 $60,000 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 $86,300,000, 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 $37,992,100 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.

ATLANTA

Florida

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 pring.

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	1/	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	1/	1/
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	2/4,629	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.

R-495

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release June 27, 1939

The Board of Governors of the Federal Reserve System today announced the appointment of J. B. Cozzo, partner in the firm of Womack and Cozzo, building contractors, Dallas, Texas, as a class "C" director of the Federal Reserve Bank of Dallas for the unexpired portion of the term ending December 31, 1940.

R-496

STATEMENT BY THE FEDERAL OPEN MARKET COMMITTEE

For release in morning newspapers
of Friday, June 30, 1939.

June 29, 1939

As a result of a reduction in holdings of Treasury bills, this week's statement of condition of Federal Reserve banks shows a decline of $13,378,000 in the System Open Market Account. This is in accordance with action taken by the Federal Open Market Committee on June 21, 1939. For some time past, Treasury bills have been purchased for the System's account at or near a no-yield basis and the account at times has had difficulty in replacing its maturing bills. It was decided that it would serve no useful purpose to continue full replacement of maturing bills, the supply of which is not always equal to the market demand. This action is in response to technical conditions in the bill market and does not represent a change in general credit policy.

R-497

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 29, 1939

Dear Sir:

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

NUBHAM - Treasury bills to be dated July 5, 1939, and to mature October 4, 1939.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-140
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 4, 1939.

Dear Sir:

Attached is a copy of a letter from Mr. Stewart McDonald, Administrator of the Federal Housing Administration, requesting that the Federal Reserve banks assist the Federal Housing Administration by obtaining such information for the Administration as it may request from time to time in regard to the experience, reputation and financial responsibility of project sponsors.

In this connection, it is noted from the minutes of the Conference of Presidents, held on Monday and Tuesday October 24 and 25, that it was the consensus of the Presidents that the Federal Reserve banks should comply with requests of the Federal Housing Administrator for credit reports but that charges should be made for such reports in the amount of the actual expense involved, the minimum charge for a report to be $1.

The Board concurs with the view of the Presidents' Conference that the Federal Reserve banks should cooperate with the Federal Housing Administrator in furnishing him from time to time such information as they may be able to obtain in regard to the experience, reputation and financial responsibility of project sponsors. The Board does not feel, however, that the banks should charge for inconsequential expenses incurred in complying with the request of the Administrator and feels that the banks should not adopt the practice of making a minimum charge of $1. It is understood, however, that ordinarily it requires the expenditure of a considerable amount of time and expense to obtain the information desired by the Federal Housing Administrator and under such circumstances the Board feels that the Federal Reserve banks should seek reimbursement on the basis of their actual costs.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FEDERAL HOUSING ADMINISTRATION
Washington

November 25, 1938.

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

Dear Mr. Eccles:

Mr. Daiger has told me of your conversation with him regarding a suggestion made at the recent conference of Reserve Bank presidents to the effect that the Board of Governors instruct the Federal Reserve banks as to the handling of credit inquiries received from the Federal Housing Administration.

In accordance with the suggestion that you in turn made to Mr. Daiger, I am giving you this explanation of why the credit information obtained for us by the Federal Reserve banks is helpful to us in our larger insuring operations, and why we should appreciate the continued cooperation of the banks in obtaining for us, in connection with these larger insuring operations, such credit information as they may have in their own files or as they may obtain through other banking or credit sources.

As you know, our Rental Housing Division handles mortgage-insurance transactions in two categories. In one of these the mortgages may run up to $200,000, in the other up to $5,000,000; the average of the two, in actual practice, is at present around $500,000.

You will see, both from the size to which these rental projects may run and from the amount of the average mortgage insured, that the credit factor is of more than ordinary importance in protecting our mortgage-insurance fund in the first instance and in protecting the Treasury against loss in the final accounting.

For the reasons I have related, I asked Mr. Daiger some time ago if he would not undertake to supplement the credit information which our Rental Housing Division obtains through the usual reporting agencies with information obtained through the Federal Reserve bank or branch in the district in which the sponsors of these larger projects are located. We have made it clear,

in requesting the assistance of the Reserve banks in this matter, that such credit information as they transmit to us will be treated in the strict confidence which is customary in the handling of credit information and that we shall of course be glad to defray any expense which the banks may incur in obtaining information for us.

What we desire in the case of each project is to obtain as much information as is practicable with reference to the experience, reputation, and financial responsibility of the project sponsors. The several Federal Reserve banks and branches from which we have obtained reports have been most cooperative, and we are very grateful for their assistance.

Sincerely yours,

(Signed) Stewart McDonald

Stewart McDonald
Administrator

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 13, 1939.

Dear Sir:

The question has been raised whether in view of the Board's letter, S-137, of December 28, 1938, the Federal Reserve banks may now reimburse members of their staffs, who have heretofore attended the Graduate School of Banking at Rutgers University, for Registration and Resident and Extension tuition fees paid by them.

The revision of the first paragraph on page 3 of the statement accompanying the Board's letter of October 30, 1936, X-9729, became effective as of December 28, 1938, and it was not the intention of the Board to make it retroactive.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

January 12, 1939

Honorable Preston Delano,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. Delano:

This refers to Mr. Upham's letter of December 21, 1938, requesting the Board's views concerning a question raised by Mr. _____, Special Deputy Secretary of Banking of ___ _____, with respect to the interpretation of the following footnote appended to sections 12 and 10(c) of the Board's Regulation F:

> "This does not prevent the bank from investing the funds of several trusts in a single real estate loan of the kind which could be made by the bank under the provisions of section 24 of the Federal Reserve Act, as amended, if the bank owns no participation in the loan and has no interest therein except as trustee or other fiduciary."

After stating that the (State) law permits the investment of trust funds in real estate loans which a national bank is not permitted to make under the provisions of section 24 of the Federal Reserve Act, Mr. _____ inquires whether the foregoing footnote precludes a national bank from investing trust funds in real estate loans which comply with the State law with respect to trust investments but which could not be made by the bank because they represent too large a percentage of the appraised value of the security.

The footnote permits a national bank to invest funds of two or more trusts in participations in a single real estate loan without regard to the otherwise applicable provisions of sections 12 and 10(c) of Regulation F requiring that the securities and investments of each trust shall be kept separate from those of all other trusts and prohibiting the collective investment of trust funds (except as permitted in section 17, which relates to common trust funds). However, such permission is qualified and trust funds cannot be invested pursuant thereto unless (1) regardless of what constitutes a legal investment for trust funds under the laws of the

particular State, the loan at least complies with the requirements of section 24 of the Federal Reserve Act with respect to the kind of real estate loans which national banks may make with their own funds, and (2) the bank owns no participation in the loan and has no interest therein except as fiduciary. The footnote, of course, has no bearing upon the type of real estate loans in which trust funds may be invested except where funds of two or more trusts are invested in participations in a single real estate loan.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 26, 1939.

Dear Sir:

From time to time it has appeared that the Board of Governors has not been promptly advised of amendments to the by-laws of the Federal Reserve banks and their branches.

In order that the Board may receive advice promptly in all such cases, it will be appreciated if you will arrange to have the Board notified as soon as possible, through a separate communication on the subject, whenever the by-laws have been amended. It is requested that this be done whether the change is in the by-laws of the Federal Reserve bank or in the by-laws of a branch.

When an amendment is made to the by-laws of your bank, one copy of the complete by-laws as amended should be promptly forwarded to the Board for its files, accompanied by a letter explaining the changes. In the case of amendments to the by-laws of a branch, the forwarding of a copy of the complete by-laws may, if desired, be deferred until after the Board has approved the amendments.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-144
Reg. O-37

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

January 27, 1939

Mr. _____, Cashier,
_____National Bank,
_____, _____.

Dear Sir:

Your letters of October 17, 1938, and December 2, 1938, addressed to the Comptroller of the Currency, inquiring whether a loan to the wife of an executive officer of your bank would be in violation of section 22(g) of the Federal Reserve Act have recently been referred to us for reply.

It is understood that the wife of a Vice President of your bank desires to obtain a loan from the bank the proceeds of which would be used by her husband. You state that she owns real estate in her own name and in addition has bonds and stocks in her own name all of which would justify a loan irrespective of the financial responsibility of her husband. It is assumed that her husband would not be liable, either directly or indirectly, on the obligation in connection with such loan.

Without attempting to prescribe any rule of general applicability with respect to the question whether loans to the wife of an executive officer of a member bank are permissible under section 22(g) of the Federal Reserve Act and the Board's Regulation O, in this particular case, in view of the fact that the wife of the executive officer has separate assets in her own name sufficient to justify the loan and upon the assumption that the officer will not be liable in any way in connection with the loan, the Board will offer no objection to the making of the proposed loan.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

S-145
Reg. F-21

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

February 9, 1939

Mr. _____,
_____,
_____,
_____, _____.

Dear Sir:

We regret that pressure of other matters has prevented an earlier reply to your letter of December 20, 1938, addressed to Chairman Eccles, in which, in connection with a common trust fund proposed to be operated by your client, _____ Trust Company, _____, _____, you inquire concerning the effect of the following provisions of section 17 of the Board's Regulation F:

> "The trust investment committee of a bank operating a Common Trust Fund shall not permit any funds of any trust to be invested in a Common Trust Fund if it has reason to believe that such trust was not created or is not being used for bona fide fiduciary purposes."

The foregoing provisions should be considered in the light of the other provisions of the same section, including the following:

> "The purpose of this section is to permit the use of Common Trust Funds, as defined in section 169 of the Revenue Act of 1936, for the investment of funds held for true fiduciary purposes; and the operation of such Common Trust Funds as investment trusts for other than strictly fiduciary purposes is hereby prohibited."

In amending Regulation F to permit the operation of common trust funds, the Board intended that a common trust fund should be used merely to aid in the administration of trusts by a trust institution through the commingled investment of funds of various trusts and that, while the operation

S-145
Reg. F-21

of a common trust fund might thus enable a trust institution to accept small trusts which it otherwise would be unwilling to handle, trust guise or form should not be used to enable a trust institution to operate a common trust fund as an investment trust attracting money seeking investment alone and to embark upon what would be in effect the sale of participations in a common trust fund to the public as investments.

In dealing with this matter, it appeared desirable to use largely general language, omitting certain exact, arbitrary restrictions which might unduly hamper the use of common trust funds for proper purposes, and, accordingly, the above-quoted provisions were incorporated in the regulation. By adopting this approach, the Board placed reliance upon the exercise of sound judgment and good faith on the part of trust institutions and their trust investment committees in carrying out the broad intent and purposes of such provisions. In determining whether a particular trust is created and used for "bona fide fiduciary purposes", it is necessary to consider, in the light of such intent and purposes, not only the terms of the trust instrument but also other facts and circumstances concerning the creation and use of the trust. In this connection, it perhaps should be emphasized that the regulation forbids the investment of funds of a trust in a common trust fund if the trust investment committee "has reason to believe" that the trust does not conform.

It is trusted that the foregoing comments may be of assistance to you in connection with your problem. If you have any further questions, it is suggested that they be taken up with the Federal Reserve Bank of _____, which will submit them and all pertinent facts to the Board if it appears necessary.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-146
Reg. D-11

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

March 1, 1939.

Mr. E. H. Gough,
Deputy Comptroller of the Currency,
Washington, D. C.

Dear Mr. Gough:

This refers to your letter of February 1, 1939, regarding the request of the National _____ Bank of _____, _____, _____, for advice as to the proper method of reporting repayments on installment loans. This question arises in connection with the revised form of condition report and, as stated in your letter, also involves reports for the purpose of computing reserves.

It is understood from your letter and from information furnished by the Federal Reserve Bank of _____ that the National _____ Bank makes loans which are payable in installments; that when payments are received a memorandum of the fact is made on a card record and the payment is entered in a receipt book kept by the borrower but the amount of the payment is not entered or noted on the back of the note; and that the bank carries on its general ledger among its assets the total amount of these installment loans and, in order to show the amount of payments received, carries among its liabilities the amount of payments received.

Since these installments appear to be payments on the note which, under the contract between the bank and the borrower, immediately reduce the unpaid balance of the loan when received by the bank, they should not be reported as deposits for reserve computation purposes. For your information, in the case of a State member bank, we would take the position that installment payments of this kind should not be reported in item 1(c) of schedule F of the condition report but that the net amount of the loans after deduction of such payments should be reported in the statement of assets and in schedule A of the condition report.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

March 1, 1939.

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

Dear Mr. _____:

This refers to your letter of January 28, 1939, and previous correspondence regarding the question whether certain repayments on installment loans made by _____ Trust Company, _____, _____, should be included in deposit liabilities in reports for reserve computation purposes and in call reports of condition.

We understand that the Trust Company uses several types of notes in its personal loan department and that these notes fall into two classes for present purposes, namely, those providing for installment payments and those providing for periodic deposits by the borrower in an account which is assigned to the Trust Company as collateral security for the loan and which may be applied to the loan if it is not paid at maturity.

As a matter of convenience to itself, the Trust Company accumulates amounts paid under the class of notes providing for installment payments in an account entitled "Installment payment fund" and makes entries extinguishing the amount of the note and the accumulated payments from the respective accounts only after the full amount of the loan has been paid. Since it appears that under the contract embodied in the note form the periodic installments received by the bank constitute payments which, as between the Trust Company and the borrower, reduce the unpaid balance of the loan as soon as received by the Trust Company, these installments do not constitute deposits and should not be included in the deposit liabilities reported by the Trust Company for reserve computation purposes. Furthermore, in preparing condition reports, even though the installment payments are carried on the Trust Company's books in a separate account and are not endorsed on the note at the time of receipt, they should not be reported in item 1(c) "Repayments on installment loans not applied directly to loans" of schedule F "Time Deposits", but should be deducted from the loans and discounts of the bank and only the net figure should be reported in the statement of assets and in schedule A, item 10.

The other class of notes provides for periodic deposits in an account which is assigned to the Trust Company as collateral security for the repayment of the loan. Under the contract embodied in the note form used in connection with these loans, it appears that the amounts deposited in the assigned account do not reduce the unpaid balance of the loan but instead increase the deposit balance in the account pledged as security. As indicated in the ruling published at page 538 of the September 1931 Federal Reserve Bulletin and in the Board's letter of February 5, 1938 (S-72), these assigned deposits should be included in deposit liabilities in reports for reserve computation purposes. Likewise, they should be included in item 1(c) of schedule F in call reports of condition.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 6, 1939.

Dear Sir:

The Board's letter of October 20, 1932 (X-7276), requested that funds contributed by the Reserve bank to the Federal Reserve club or society be accounted for separately from funds contributed to the club by employees and that a statement be sent to the Board at the end of each year showing the purposes for which the funds contributed by the Reserve bank were expended.

This matter has recently been reviewed, and you are advised that the annual reports heretofore submitted in accordance with the Board's letter of October 20, 1932, may be discontinued. The Board's examiners will, however, be expected to review expenditures of funds contributed to Federal Reserve clubs by the Reserve banks.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-149
Reg. U-27

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1939.

Dear Sir:

The Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have agreed upon certain general principles for handling possible violations of Regulation U, the Board's regulation relating to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange. These principles are as follows:

1. Obtain compliance as far as possible by persuasion, and do not burden a bank with legal proceedings unless it shows that it is not amenable to other methods of correction.

2. Avoid as far as possible any necessity for investigation of banks by the Securities and Exchange Commission, which has certain broad enforcement powers under the Securities Exchange Act of 1934.

3. Arrange for examiners and bank supervisory authorities to follow, in general, the same procedure as in violations of other banking laws such as those relating to interest on deposits or purchase of securities.

4. Arrange for examiners to report to the Comptroller, the Federal Deposit Insurance Corporation and the Federal Reserve banks, as the case may be, with these agencies feeling free to present questions to the Board for interpretation whenever they feel the need to do so.

5. Arrange that when a case reaches a point where legal proceedings should be instituted, the Federal Reserve bank, in the case of a State member bank, will report directly to the Board for the Board to refer the case to the Securities and Exchange

Commission or the Attorney General, depending upon whether civil (injunction) or criminal action is desirable; and the Comptroller or the Federal Deposit Insurance Corporation, in the case of a national or insured nonmember bank, will report directly to the Securities and Exchange Commission or the Attorney General, in accordance with their own judgment as to whether civil or criminal action is desirable, and will send a copy of the report to the Board for its information. Arrange that the Board, for purposes of general information, will from time to time advise the Comptroller of any cases which the Board or the Federal Deposit Insurance Corporation has referred to the Securities and Exchange Commission or the Attorney General and which have not already been brought to the attention of the Comptroller, and likewise will advise the Federal Deposit Insurance Corporation of any such cases which the Board or the Comptroller may have so referred and which have not already been brought to the attention of the Federal Deposit Insurance Corporation.

6. Encourage close informal cooperation between all the agencies and their staffs.

It will be appreciated if you will follow these general principles in connection with possible violations of the regulation; and for your further information in this respect there are set forth below the relevant portions of a letter which the Board has previously addressed to the Comptroller of the Currency regarding such a possible violation:

"Reference is made to Deputy Comptroller _____'s letter of _____, regarding questions with respect to Regulation U which were raised by the June 6, 1938 examination of the _____ National Bank, _____, _____.

"It is understood that the bank made a loan on September 2, 1937, for the purchase of stocks registered on a national securities exchange, and that while the stocks serving as collateral for the loan then had a market value of only $20,178, the loan was in the amount of $10,000. At that time the regulation gave stocks a maximum loan value of 45 per cent of their market value. Accordingly, the $10,000 loan exceeded such maximum loan value by $920.

"Effective November 1, 1937, the loan value of stocks for the purposes of Regulation U was changed to 60 per cent of current market value. The market value of the collateral in question on November 1, however, is not indicated.

"At the time of the examination on June 6, 1938, the stocks had a market value of $13,193.

"Questions are presented as to whether the loan became conforming as the result of the change in loan values, as to the effect of the decline in the market value of the collateral to $13,193, and as to the 'reduction necessary or the amount of the additional collateral required to correct' the violation if there was a violation.

"From the facts as stated it appears that when the loan was made on September 2 it violated Regulation U because the loan exceeded the maximum loan value of the collateral; and this violation was not corrected by the November 1 change in loan values. Broadly stated, Regulation U deals with the making of loans and with the subsequent withdrawals and substitutions of collateral but it does not require a bank, in the event of declines in the market value of collateral, to reduce any loan, obtain additional collateral for any outstanding loan, or call any outstanding loan. The prohibition of the regulation is directed in the first instance against making a loan in excess of the maximum loan value of the collateral, and strictly as a matter of construction of the regulation, the unlawful making of a loan would not be made lawful by a subsequent change in loan value of the collateral, by a subsequent reduction in the amount of the loan, or by the pledge of additional collateral.

"With respect to the obtaining of compliance with the regulation, or more explicitly what should be done by the supervisory authority in the event of a possible violation, you will recall that some time ago representatives of your office, the Federal Deposit Insurance Corporation and the Board discussed the matter of procedure with respect to such possible violations, with a view to securing uniformity, and that the consensus of the discussion was outlined in

the Board's letter to you * * * . In general, this procedure contemplated that such possible violations would be handled in the same manner as possible violations of other banking laws and that compliance would be obtained so far as possible by persuasion, particularly where the violation appeared to the examiner to be inadvertent as distinguished from a willful disregard of the law and regulation.

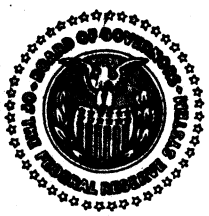
"In the circumstances of the instant case, particularly in view of the small amount involved, it is questionable what good purpose would be served by requiring either a reduction in the amount of the loan or the pledge of additional collateral. The important consideration, assuming that the violation was not willful, would seem to be that the bank understand clearly the provisions of the law and regulations so that such violations will not occur in the future. On the other hand, in different circumstances, particularly if this or other violations of Regulation U should seem to be indicative of a willful intent to disregard statutory restrictions, more drastic measures might be required."

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-150
Reg. T-83
388



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 17, 1939.

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Extension of Time by Committee of Exchange after Original Period Has Expired".

It will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, March 21, 1939.

The following ruling will appear in the Federal Reserve Bulletin:

Extension of Time by Committee of Exchange after Original Period Has Expired.

Section 3(b) of Regulation T provides that when a customer effects certain transactions in a general account the creditor must obtain the deposit of certain cash or securities in the account, and must obtain such cash or securities before the expiration of three full business days following the date of the transaction. Section 3(e) provides that if such cash or securities are not obtained within the specified period, certain liquidations must be effected in the account during the period. Section 3(f) provides, however, as follows:

> "Extensions of time.- In exceptional cases, the three-day period specified in section 3(b) may, on application of the creditor, be extended for one or more limited periods commensurate with the circumstances by any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, of which exchange the creditor is a member or through which his transactions are effected, provided such committee is satisfied that the creditor is acting in good faith in making the application and that the circumstances are in fact exceptional and warrant such action."

Section 4(c) relating to the special cash account provides that, in general, if a customer does not make full

cash payment for a security purchased by him in the account within seven days after the date on which the security was purchased, the creditor shall promptly cancel or otherwise liquidate the transaction. Another paragraph of the section specifies different periods of time for certain special types of transactions, and the section then provides:

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

The Board has recently been asked whether an application for such an extension of time pursuant to section 3(f), or for an extension of time or transfer of a transaction pursuant to section 4(c), may be approved by a business conduct committee after the expiration of the period originally applicable to the transaction.

It is the view of the Board that such an application may not be granted after such period has expired.

Thus an application for an extension of the three-day period applicable to a transaction in the general account could not be approved by the committee after midnight of the third full business day following the date of the transaction. Similarly, in the case of a transaction in the special cash account to which the standard seven-day period is applicable, an application for an extension of time or for a transfer of the transaction should be passed upon by the committee not later than midnight of the seventh calendar day after the date of the transaction. In case an extension of time has been granted for a particular transaction, any application for a further extension or for a transfer of the transaction should be received and acted upon before the expiration of the prior extension.

In order to facilitate its consideration of the applications, each business conduct committee may, of course, further limit the period following a transaction within which it will receive any such application.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 21, 1939.

Dear Sir:

Attached is a copy of a letter dated March 7, 1939, from the Administrator of the United States Housing Authority, requesting advice as to whether it would be possible for the Federal Reserve banks to act as agents of the United States Housing Authority in connection with a proposed new plan for furnishing local housing agencies with necessary funds for the construction of low-rent housing projects.

The plan contemplates the sale of bonds by the local housing agencies, the proceeds of such bond offerings to be deposited with the Federal Reserve banks and released to local depositaries of the local housing agencies on the sole order of the United States Housing Authority from time to time as funds are needed for construction of the projects.

The United States Housing Act of 1937 specifically directs the Federal Reserve banks to act as depositaries, custodians, and fiscal agents for the United States Housing Authority, and the Board sees no objection to the Federal Reserve banks acting in the capacity requested in the attached letter.

It is understood that, if it appears to be necessary or desirable, existing agreements between the respective banks and the Authority will be modified to such extent as may be appropriate or new agreements will be entered into to cover the performance of these services.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

COPY

DEPARTMENT OF THE INTERIOR
UNITED STATES HOUSING AUTHORITY
Washington

March 7, 1939.

Gentlemen:

The plan of financing contemplated by the United States Housing Authority prior to the present time anticipated that it would be necessary for the United States Housing Authority to lend to public housing agencies 90% of the development cost of low-rent housing projects. The remaining 10% was to be raised from sources other than the United States Housing Authority. The entire 100% was to be represented by bonds of the housing agencies. Under such a plan, it was possible for the United States Housing Authority, and it has been our practice, to advance funds from time to time as needed. Prospective investors had no objection to the deposit of the proceeds of the bonds they were to purchase (representing only 10% of the loan) in the local banks which acted as depositaries for the housing agencies.

At the present time, we expect the housing agencies to be able to sell bonds representing as much as 95% of the cost of the projects to private investors, the bonds to carry an interest rate lower than the minimum rate at which we are authorized to lend funds. One obstacle to such a plan is the refusal of prospective investors to permit the immediate deposit of the entire proceeds of the sale of such bonds in the local depositaries. Bond issues of local authorities will amount to several millions of dollars in many cases, and the prospective purchasers are unwilling to have the entire amount deposited in local banks during the entire construction period. In addition, it is contemplated that the bond offerings of the local authorities will be coordinated so that the total offerings at one time may be as much as $200,000,000. The prospective investors have suggested that this money could be deposited in several New York banks, but we are unwilling to have such an amount representing a large part of our present program on deposit in one or several banks at any one time. For these reasons, we find it necessary to ask your advice as to whether it will be possible for the Federal Reserve Banks to act as our agents in carrying out the following plan.

The public housing agencies (which are public bodies of the several states, created under state enabling acts) will authorize their bonds and advertise them for sale. After bids have

been received and the bonds awarded, we will make arrangements with the Federal Reserve Bank for the Federal Reserve District in which the local housing agency is situated to accept the deposit of the proceeds of the sale of such bonds of the local housing agency. These proceeds will be held by the particular Federal Reserve Bank for release, on the sole order of the United States Housing Authority, from time to time as funds are needed for construction of the projects. As funds are released on the order of the United States Housing Authority, they will be deposited in the local depositaries of the housing agencies. Such releases will be in sizable amounts estimated at $100,000 or more for average projects, and will be supplemented from time to time with funds representing additional bond purchases by the United States Housing Authority in the manner provided by our present arrangements with the Federal Reserve Banks. Under the proposed plan, the same amount of money will be deposited in and disbursed from local banks as would have been deposited in and disbursed from local banks under our present plan.

Upon receipt of advice that the procedure proposed above is agreeable to you, we will communicate with the several Federal Reserve Banks and arrange the necessary details.

Faithfully yours,

(Signed) Nathan Straus

NATHAN STRAUS,
Administrator.

Board of Governors of the
Federal Reserve System,
Federal Reserve Building
Washington, D. C.

S-152
Reg. A-6

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

March 20, 1939.

Mr. _____, _____,
_____,
_____, _____.

Dear Mr. _____:

This refers to your letter of March 8, 1939, presenting the question whether notes given by credit unions to banks as evidence of loans made to them can be discounted with Federal Reserve banks. You enclosed with your letter a copy of a letter dated February 9, 1939, from Mr. _____, Assistant General Manager, _____ Mutual Society, _____, _____, _____, with reference to this question.

While it is the usual practice of the Board of Governors to pass upon questions only upon the basis of a full and definite statement of the facts of an actual case, in this instance it is believed that certain general principles can be stated which may be of assistance to Mr. _____ with respect to this matter.

Although the question presented in your letter is restricted to whether notes given by credit unions to banks can be discounted with Federal Reserve banks, it is assumed that you desire to be advised concerning any method by which such notes may be used as a basis for the extension of credit by Federal Reserve banks to member banks. Section 10(b) of the Federal Reserve Act, which section was first enacted in 1932 and has subsequently been amended, now authorizes advances by a Federal Reserve bank to a member bank on the latter's promissory note, for periods not exceeding four months and at rates not less than one-half of one per cent higher than the discount rate for eligible paper, on any security which is satisfactory to the Federal Reserve bank. If a note given by a credit union to a member bank as evidence of a loan made to it by the bank should be considered by the Federal Reserve bank as satisfactory collateral for an advance to the member bank, such a note could be used as collateral security for an advance under section 10(b), and this would be true regardless of the use which the credit union made of the proceeds of the loan by the member bank.

With reference to the question whether notes given by credit unions to member banks are eligible for discount with the Federal Reserve banks, it will be observed from the enclosed copy of the Board's Regulation A, that Federal Reserve banks are authorized by

law to discount for member banks, under certain restrictions and limitations, commercial, agricultural and industrial paper. The fact that loans by credit unions to their members were made for provident or productive purposes would not in itself make the paper evidencing such loans eligible for discount by a Federal Reserve bank. However, if the proceeds of a loan made by a member bank to a credit union were actually used by the credit union to make loans for eligible purposes it would be possible for a Federal Reserve bank to discount for a member bank a note evidencing such a loan to the credit union if the note complied in other respects with the law and the regulation and was acceptable from a credit standpoint.

Although it does not seem probable that the usual credit union would be engaged in a type of business which would cause its notes to a member bank to be eligible for discount, there may possibly be cases where the notes of the credit union would be eligible. In any particular case, of course, the question whether paper offered for discount meets the requirements as to eligibility and whether it is acceptable from a credit standpoint is one for the consideration of the Federal Reserve bank at the time the paper is offered, in the light of all of the circumstances of the case.

In seeking to determine whether the notes of any particular credit union are eligible for discount, your attention is invited to two rulings of the Board of Governors which may have some bearing on the question. At page 1190 of the enclosed copy of the Federal Reserve Bulletin for December 1937, the Board published a ruling to the effect that a borrowing for the purpose of making a purchase of goods is a borrowing for a commercial purpose, whether the borrower intends to use the goods himself or to resell them. In this ruling the Board also stated that the note of a finance company given to a member bank, the proceeds of which are loaned to other borrowers who use the funds thus obtained to purchase goods for use or consumption, will be eligible for discount by a Federal Reserve bank if the note meets the applicable requirements of the regulation as to maturity and in other respects. Another ruling on this subject appears at page 86 of the February 1938 Federal Reserve Bulletin, a copy of which is also enclosed.

It is hoped that this information will be of assistance to you in answering Mr. _____'s inquiry. However, if you should have any further questions, please feel free to communicate with us again.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

March 20, 1939.

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

Dear Mr. _____:

Reference is made to your letter of March 3, 1939, with respect to section 11(m) of the Federal Reserve Act, which provides in part as follows:

> ". . . loans secured by stock or bond collateral made by member banks . . . , but no such loan shall be made by any such bank to any person in an amount in excess of 10 per centum of the unimpaired capital and surplus of such bank . . . "

Although other provisions of section 11(m) authorize the Board of Governors to place certain limitations on the aggregate amount of member banks' loans secured by stock or bond collateral, action by the Board to impose such an aggregate limitation is not a prerequisite to the operation of the 10 per cent limitation quoted above.

It is a settled principle of the law applicable to partnerships that each general partner is individually liable for the debts of the partnership. Accordingly, the Board agrees with the view expressed by counsel to your bank that, if a person is a general partner in an unlimited partnership and a State member bank already has outstanding to the partnership loans on stock or bond collateral in an amount equal to 10 per cent of the bank's unimpaired capital and surplus, the quoted provision forbids the bank to make any additional loan on such collateral to one of the general partners.

It is assumed, of course, that the loans are not secured by Government obligations and hence do not get the benefit of the 25 per cent special loan limit specified in section 11(m) for loans on such securities.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-154

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 23, 1939.

Dear Sir:

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

Number of copies	Form
	Form F. R. 105, Report of condition of State bank member.
	Form F. R. 105b (Schedule "O"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
	Form F. R. 105e, Publisher's copy of report of condition of State bank member.
	Form F. R. 220, Report of affiliate or holding company affiliate.
	Form F. R. 220a, Publisher's copy of report of affiliate or holding company affiliate.
	Form F. R. 220b, Instructions for preparation of reports of affiliates and holding company affiliates.

No change has been made in any of the forms except form F. R. 105e. On that form a notary's jurat has been added following the signatures of the bank officers and directors, also following the certificate of publication on the reverse side, with a note to the effect that the jurat need not be executed if not required by the State banking department. Provision has also been made in the certificate of publication for the signature of either an officer of the bank or an officer of the newspaper. The execution of the

certificate of publication by either one may be accepted by Federal Reserve banks. The changes on form F. R. 105e were made at the suggestion of a number of Federal Reserve banks, in order to facilitate the single, joint publication of condition reports rendered by State bank members to their respective Federal Reserve banks and State banking departments.

There is enclosed a memorandum with respect to the principal items that were incorrectly reported in the December 31, 1938, call reports of State bank members.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures 7

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

MEMORANDUM IN CONNECTION WITH CONDITION REPORTS OF STATE BANK MEMBERS

March 23, 1939.

Schedule A, "Loans and discounts". Amounts reported against item 5, "Other loans for the purpose of purchasing or carrying stocks, bonds, and other securities", should include loans made to enable persons to purchase stocks, bonds and other securities, loans for this purpose that have been renewed, and borrowings for the purpose of providing funds to pay off indebtedness incurred in purchasing securities. If a person borrows for business purposes and uses stocks, bonds or other securities as collateral, such loans should be reported against item 1, "Commercial and industrial loans". Similarly, borrowings for agricultural purposes should be reported against item 2, "Agricultural loans", even though secured by stocks, bonds, or other securities. Loans to individuals for the purpose of enabling them to purchase household equipment or automobiles, to repair or repaint their homes, to pay medical and educational expenses, to provide funds for vacation, etc., should be reported as "All other loans" against item 8 of the schedule, even though secured by stocks, bonds, or other securities.

If no information is available as to the purpose of a given loan that is already outstanding, for the reason that the loan is an old one or for some other reason, the loan may be presumed (even though secured by stocks and bonds) to be "commercial and industrial" if the borrower is a business enterprise and "agricultural" if the borrower is a farmer. If no information is available as to the purpose of a loan to a borrower other than a business enterprise, farmer, or bank, and the loan is secured by stocks and bonds, it may be regarded as having been made for the purpose of enabling the borrower to purchase or carry stocks, bonds, and other securities.

Schedule B, "Bonds, Stocks, and Other Securities". The only securities now outstanding which can properly be reported against item 1(b)(4) of Schedule B are (1) notes issued by the Commodity Credit Corporation, (2) notes issued by the United States Housing Authority, and (3) Mutual Mortgage Insurance Fund debentures issued by the Federal Housing Administration following foreclosure of insured mortgages.

The only securities now outstanding which can properly be reported against item 3(a)(3) of Schedule B are debentures of Federal Home Loan banks and notes of the Federal National Mortgage Association.

The amount reported against item 6 of Schedule B should be consistent with the figures reported under item 1(b). Item 6 should, therefore, include all obligations of the Reconstruction Finance Corporation as shown against item 1(b)(1), all obligations of the Commodity Credit Corporation included in item 1(b)(4), and any Home Owners' Loan Corporation bonds and Federal Farm Mortgage Corporation bonds maturing in 1939 -1943 included in items 1(b)(2) and 1(b)(3).

The amount reported against item 7 should be consistent with the figures reported under item 3(a). Item 7 should, therefore, include all obligations of the Federal Intermediate Credit banks as shown against item 3(a)(2), all debentures of Federal Home Loan Banks included in item 3(a)(3), and such obligations of the Federal National Mortgage Association included in item 3(a)(3) as mature in 1939 - 1943.

Unallocated valuation allowances on loans and investments. Allowances which have been set up against total loans, total securities or certain groups of loans and securities, should be allocated on an approximate basis, for the purpose of the condition report, against the appropriate items of Schedules A and B. (See third paragraph on page 11 and second paragraph on page 14 of instructions, form F. R. 105a.) State bank members may, if they wish, show in parentheses to the left of the extended figures in Schedules A and B, the amounts of unallocated reserves deducted from the applicable items in the schedules.

Memorandum item 32, "Secured and preferred liabilities". The figures reported under item 32 should represent the amounts of secured and preferred liabilities, not the amounts of assets pledged against such liabilities.

All deposits secured by pledged assets, including those standing to the credit of the trust department, should be reported against item 32(a).

S-155
Reg. L-7

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

March 28, 1939.

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

Dear Mr. _____:

Careful consideration has been given to your letter of March 7, 1939, and enclosures, regarding the Clayton Act status of Mr. _____ who is a partner in the firm of _____ _____ Co. and a director of _____ Trust Company, _____, _____.

The question is whether the trust company is "engaged in a class or classes of business" in which the firm is engaged, within the meaning of section 3(d)(4) of Regulation L, and in this connection it appears that there are only three items in the statement of the trust company to which this phrase might be applicable: the deposit of one corporation, against which no checks are drawn; 44 deposits of individuals which "are handled for the Trust Company by The National _____ Bank _____"; and certain loans on stock or bond collateral, all but one of which are loans to protective committees for which the trust company is acting as depositary, the loans being secured by the securities so deposited.

The question presented is similar to that which has been considered by the Board in a number of cases where an individual was serving a trust company engaged almost entirely in trust business, and a commercial bank. In each of those cases it appeared that both institutions were engaged to a certain extent in the same classes of business, and the Board found that the corresponding provision of the statute (paragraph (6)) was not applicable.

You are familiar with the experience of the Board in applying the indefinite standards which were contained in this statute before it was rewritten by the Banking Act of 1935. Those standards were found to be unworkable and extremely unsatisfactory not only from the standpoint of the Board but more particularly from the standpoint of the directors, officers and banks affected, since no one could know whether his services were legal until he had furnished full information and submitted the matter to the discretion of the Board in Washington. It was for this reason that the statute was completely revised in 1935 so as to prescribe a set of definite rules.

If the Board should decide that the small amount of business which exists in the present case did not render the statute inapplicable, it would be necessary in other cases to decide whether a slightly larger amount should produce a different result. The issue then would not be whether the two institutions were engaged in any of the same classes of business, but whether they were engaged in the same classes of business to such an extent that the interlocking relationships would, in the opinion of the Board, produce a situation which would be in conflict with one or more of the objectives of the statute. These objectives, moreover, are themselves indefinite, since section 8, as revised in 1935, does not even contain the references to "substantial competition" and the "public interest" which it formerly contained. Such a decision, therefore, by reintroducing an indefinite standard, would carry with it all the disadvantages of the former procedure.

The standard prescribed in paragraph (6) is definite, and the Board's experience in administering this statute has shown beyond any doubt that a set of definite rules produce far fewer unsatisfactory results than one which requires a long-range appraisal of the facts in each case. No rules of general application can produce uniformly perfect results, and the Board believes that the directors and officers of member banks will fare much better under rules which obviate the inconvenience and uncertainty which were inherent in the former procedure.

For these reasons the Board believes, consistently with its previous rulings in similar cases, that Mr. _____'s relationships are not excepted from the prohibitions of the statute.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-156

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 6, 1939.

Dear Sir:

This refers to the Board's Regulation G, Series of 1932, relating to the rediscount of notes secured by adjusted service certificates.

It appears from the records of the Board that the Federal Reserve banks do not hold at this time any notes secured by adjusted service certificates and that no such notes have been rediscounted with a Federal Reserve bank for a number of years. In addition, as you know, the law provides for the payment of an adjusted service certificate by the Veterans Administration at the option of the veteran holding the certificate, and a veteran may obtain from the Veterans Administration a loan on his certificate. While banks may still make loans on the security of adjusted service certificates, it seems improbable, in all the circumstances, that a Federal Reserve bank will be called upon to rediscount a note secured by an adjusted service certificate. Accordingly, the Board has today repealed its Regulation G, Series of 1932.

In the event that you should receive an application for the rediscount of a note secured by an adjusted service certificate, it is requested that you handle such application under the pertinent provisions of law in the same manner as you would if the provisions of Regulation G were still in effect.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-157

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1939.

Dear Sir:

The Board concurs in the action of the Conference of Presidents held March 6, 1939, in approving the following recommendations of the Standing Committee on Collections, contained in its report dated January 14, 1939. Paragraph numbers refer to corresponding numbers in the Committee's report.

(3) Country items payable in own Federal Reserve bank or branch territory

That each Federal Reserve bank and branch give deferred credit of not to exceed two business days for all country items payable in its own territory, regardless of whether such items are received from its own member banks or from other Federal Reserve banks and branches and their direct routing member banks.

(4) Items payable outside own Federal Reserve bank or branch territory

That each Federal Reserve bank and branch give deferred credit of not to exceed three business days for all items payable outside of its own territory when received from its own member banks.

(5) and (6) Items routed direct either by ordinary or air mail

That each Federal Reserve bank and branch give deferred credit of not to exceed three business days from date of dispatch for all items routed direct either by ordinary or air mail to other Federal Reserve banks and branches, provided, however, that one and two-day deferred credit from date of dispatch be given for those items which can be collected in one and two days.

(7) Member banks' own drafts on their commercial bank correspondents

That each Federal Reserve bank and branch give deferred credit based on actual transit time for member banks' own drafts on their commercial bank correspondents.

(10) Amend paragraph (c) of Section 2 of Regulation D

That, at an appropriate time, to be determined by the Board of Governors, Regulation D be amended to agree with Regulation J as it relates to uncollected funds.

(11) Telegraphic advices regarding dishonored items

That no wire costs be absorbed in connection with telegraphic advices regarding dishonored items received from a direct routing bank or from a Federal Reserve bank or branch.

(12) Absorption of shipping charges on currency and coin received from nonmember remitting banks

That no steps be taken at this time to bring about uniformity of practice on the part of Federal Reserve banks with regard to the absorption of shipping expense on currency and coin received from nonmember remitting banks.

(13) Cash letters prepared by nationally known corporations

That, while there is no objection to the acceptance by Federal Reserve banks from their member banks of deposits of checks where the cash letters are prepared by nationally known corporations but actually deposited by the member banks, no arrangements be made with member banks for the acceptance of deposits of checks directly from such corporations themselves for the credit of the member banks without first securing opinion of counsel that such acceptance is not in violation of laws relating to branch banking.

(23) Subcommittee of the Standing Committee on Collections

That a Subcommittee of the Standing Committee

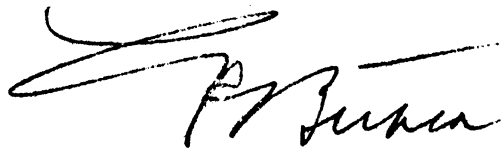
on Collections consisting of three persons, who are not members of the Standing Committee on Collections and who can devote their entire time to the development of the subject and a comprehensive report thereon, be appointed by the Conference of Presidents to make a study of the check collection system in its entirety to determine what improvements may be made.

The recommendations contained in paragraphs (8) and (9) with respect to an amendment to Regulation J and a change in the check collection circular relating to direct routing and the recommendations contained in the report of the Committee of Counsel, paragraphs (14) to (22), are now under consideration. You will be advised with respect to these recommendations at an early date.

The Board understands that the Standing Committee on Collections and the Committee of Counsel will meet in Chicago on April 19 for the purpose of considering the proposed regulation on noncash collections, amendments to Regulation J, and changes in the uniform paragraphs of the cash and noncash collection circulars. In the circumstances, it is assumed that no Federal Reserve bank will make any of the changes which have been suggested in its cash or noncash collection circulars or in availability schedules until after these meetings have been held.

In forwarding the revised time schedules between Federal Reserve bank and branch cities to the Board for approval, it will be appreciated if at the same time you will send us copies of the cash and noncash collection circulars with the proposed changes incorporated therein in order that the Board may have an opportunity to review them before they are released.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-158

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 13, 1939.

Dear Sir:

For your information there is enclosed a copy of a letter sent today to Mr. Harrison, President of the Federal Reserve Bank of New York.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT NEW YORK

April 13, 1939.

Mr. George L. Harrison, President,
Federal Reserve Bank of New York,
33 Liberty Street,
New York City.

Dear Mr. Harrison:

As you know, the reports of the Committee on Branch, Group, and Chain Banking were never formally adopted by the Federal Reserve Board and with a few exceptions they have not been made available to persons outside the System. These few exceptions, however, have resulted in academic or press citations which have inspired a considerable number of requests for access to the reports.

In order to make the useful material in these reports available without discrimination, it is suggested that responsible persons be permitted to use them at the libraries of the Board or Reserve banks so far as such use will not interfere with regular operations. Attention of persons using the reports should be directed, however, to the fact that they were prepared as research reports for the information of the Board but were not adopted or approved by the Board as an official expression of its views. Citations of the reports should reflect this limitation. A notice to this effect probably should be attached to each of the reports.

A copy of our reply to Mr. _____ of _____ University, who requested the use of one of the reports, is enclosed.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-159

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 17, 1939.

Dear Sir:

The Board has received replies from all of the Federal Reserve banks to its letter of March 15, 1939, (R-423) with respect to the suggestion that the Board furnish copies of the Federal Reserve Bulletin to out-of-town branches of member banks.

All but one of the banks were in favor of some liberalization of the present arrangement under which one copy of the Federal Reserve Bulletin is sent to each member bank without charge. Some of the banks suggested, however, that no distinction should be made between branches located in the head office city of the member bank and out-of-town branches and that consideration be given to the advisability of sending the Bulletin to branches of member banks, regardless of location, that carry on substantial banking activities and are more than offices for the receipt of deposits and the cashing of checks.

Accordingly, the Board has decided that in the future, it will send a copy of the Bulletin to each domestic branch of a member bank, the business of which, in the opinion of the Federal Reserve bank, is sufficiently important to justify the Board in making a copy of the Bulletin available to the managing officer of the branch, except that not more than 50 copies will be sent to the branches of any one member bank. It will be appreciated, therefore, if you will send to the Board a list of the names and addresses of the branches of member banks in your district to which you feel copies of the Bulletin should be sent in accordance with this policy.

The suggestion was also made by a Federal Reserve bank that it might be desirable to furnish the larger member banks with additional copies of the Bulletin for the use of officers and departments of the head office. The Board has given consideration to this suggestion but has found it impossible to determine upon a satisfactory basis upon which such additional copies could be sent.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

S-160

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 21, 1939.

Dear Sir:

One of the Federal Reserve banks has inquired of the Board of Governors whether a thesis on some phase of banking or credit written by an officer or employee of a Federal Reserve bank for the purpose of meeting the graduation requirements of the Graduate School of Banking comes within the purview of the Board's letters relating to the submission to the Board of addresses by officers and employees of Federal Reserve banks and whether an advance copy of the thesis should be sent to the Board of Governors.

The Board does not regard Graduate School of Banking theses as being covered by the letters above referred to. It is of the opinion, however, that the officer or employee should make it entirely clear in the preface or foreword to his thesis that he assumes full responsibility for the statements contained therein, that any opinions expressed are his own personal views formulated on the basis of an independent study of the subject, and that the thesis does not in any way express or reflect the opinions or policies of the Federal Reserve bank or the Board of Governors.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-161

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 26, 1939.

Dear Sir:

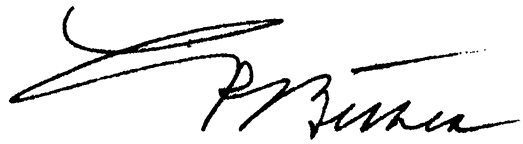
In the enclosure which accompanied the Board's letter X-9474 of January 31, 1936, it was stated that, regardless of whether or not a member bank desires to have allowable deductions from gross demand deposits taken into consideration in the determination of its reserve requirements, it must show (1) gross demand deposits, (2) balances subject to immediate withdrawal due from other banks, (3) cash items in process of collection, and (4) time deposits, in the required reports of deposits submitted to the Federal Reserve bank for reserve computation purposes. It was further stated, however, that, in such reports of deposits, cash items forwarded to a correspondent bank for collection and credit and charged to "due from banks" may be included in "balances subject to immediate withdrawal due from other banks" instead of in "cash items in process of collection".

Recently there has been raised the question whether or not the Board's letter X-9474 was intended to mean that member banks must without exception report as "cash items in process of collection" any cash items sent to Federal Reserve banks and in process of collection. As you know, it is a common practice for country member banks to make no distinction, on their books, between cash items with Federal Reserve banks in process of collection and collected reserve balances; that is to say, they commonly debit "Reserve with Federal Reserve bank" as soon as the cash items are sent to the Federal Reserve bank for collection and credit. Such action does not, of course, affect the amount of reserve balances used in determining whether or not the bank has a deficiency in reserves, because the figures used for that purpose are the collected reserve balances reflected by the books of the Federal Reserve bank.

You are advised that, for the purpose of the reports of deposits above referred to, the Board's letter X-9474 should be interpreted to mean that cash items with Federal Reserve bank in process of collection need be reported as "cash items in process of collection"

only if shown as such on the member bank's books. Permission to follow the same procedure in submitting condition reports on Form F. R. 105 will be incorporated in the letter sending out the forms for the next call. Items with the Federal Reserve bank in process of collection if shown separately on the bank's books may, of course, be deducted from gross demand deposits to obtain net demand deposits on which reserves are computed, and member banks should be encouraged to make the segregation, but they should not be required to do so.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-162

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 29, 1939.

Dear Sir:

At the close of the year 1938 certain questions arose in connection with the termination of custody of Federal Reserve notes, collateral, and other property held by Federal Reserve agents who were going out of office. There have also been occasions in the past when a retiring Federal Reserve agent has asked the Board for suggestions as to a procedure which he might follow in terminating his custody of property held by him in his capacity as Federal Reserve agent. For the information and records of your office, it may be said that the following suggestion, based upon the Board's past consideration of this matter, is one method which may be used in the future, if desired, in connection with the transfer of Federal Reserve notes, collateral, and other property from a retiring Federal Reserve agent to his successor:

The auditing department of the Federal Reserve bank should prepare an instrument certifying the amounts of Federal Reserve notes, collateral, and other property in the various accounts in the Federal Reserve agent's department for which he is responsible as of the close of business on the last day of official duty of the agent. This certificate should be signed by the auditor and should be attested by the outgoing Federal Reserve agent and, with respect to property held in joint custody, by the joint custodians. Counsel for the Federal Reserve bank should then prepare a receipt in duplicate based upon the certificate prepared by the auditing department.

In the event the outgoing Federal Reserve agent is to be immediately succeeded by a new Federal Reserve agent, such receipt should be signed by the incoming Federal Reserve agent on the day he executes the oath of office and enters upon his duties. One of the duplicate originals of such receipt should be delivered to the outgoing Federal Reserve agent. In cases where an outgoing Federal Reserve agent is not immediately succeeded by a new agent, the ranking

assistant Federal Reserve agent should execute the receipt in duplicate and one of the duplicate originals should be delivered to the outgoing Federal Reserve agent. In such a case, upon the appointment of a new Federal Reserve agent, the procedure outlined in the preceding paragraph should be followed, with a certificate and receipt prepared as of the day the new Federal Reserve agent executes his oath of office and enters upon his duties. A duplicate original of this receipt, properly executed by the new agent, should be delivered to the ranking assistant Federal Reserve agent.

Copies of such receipts and documents need not be forwarded to the Board, but it will be appreciated in each case if the Board is advised in general terms of what has been done.

In all cases counsel for the Federal Reserve bank should be consulted in connection with the preparation of such documents as may be utilized in this connection.

As indicated above, the procedure outlined is not prescribed but merely suggested as one method which may be used; and any procedure may be followed which is satisfactory to the parties concerned and is approved by counsel for the Federal Reserve bank.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

May 15, 1939

Mr. _____, Vice President,
_____ Bank & Trust Company,
_____,
_____, _____.

Dear Mr. _____:

This refers to your letter of May 3, addressed to _____, with regard to the question whether the practice described in an enclosed clipping from the (newspaper) is in conflict with Regulation Q of the Board of Governors of the Federal Reserve System.

It appears from the clipping that depositors who have special checking accounts in a member bank are offered a credit of $1 for the introduction to the bank of depositors who open new special checking accounts. This amount may be given in the form of cash or in the form of ten free checks, for which these depositors would ordinarily pay 10 cents each. The plan is apparently a temporary one, expiring June 17, 1939.

The Federal Reserve Act forbids the direct or indirect payment of interest on demand deposits and the Board's Regulation Q provides that "Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest." The amount of $1, which is given by the bank to a depositor for bringing in a new deposit account, is not compensation for the use of the funds constituting the deposit account of such depositor but apparently is for the service which he renders in introducing the new depositor to the bank. Such a service conceivably might be rendered by any person, whether or not a depositor. Likewise, it does not appear that the payment is one which should be regarded as compensation for the use of the funds constituting the account of the new depositor, as it does not inure to his benefit but is made to the person who introduces him.

Accordingly, it is the view of the Board of Governors, on the basis of the information enclosed with your letter, that the payment in question is not a payment of interest within the meaning of the statute or the Board's Regulation Q.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-164

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1939

Dear Sir:

At the Conference of Presidents on March 6, 1939, approval was given to a recommendation of the Leased Wire Committee that telegrams between Federal Reserve banks and branches now being sent over commercial wires be sent over the Federal Reserve leased wires, except in cases where undesirable circuitous routing is involved, and that a charge be made for the service on the basis of commercial wire rates. This action was taken by the Conference with the understanding that telegraphic advices between Federal Reserve banks and branches regarding dishonored items would continue to be sent over the leased wires and that charges for such advices would be assessed. The Board of Governors approves these suggested changes and has amended the regulations set forth in its letter of May 2, 1938, S-93, regarding telegraphic transfers of funds and the Federal Reserve leased wires to read as follows, effective July 1, 1939:

1. The leased wires should be used for all telegrams between the Federal Reserve banks and branches, unless these wires are overcrowded or transmission over the leased wires would involve undue delay or undesirable circuitous routing.

2. Telegraphic transfers between Federal Reserve banks and branches of bank balances in multiples of $1,000 will be made for member banks without charge. Such transfers will be made for and paid to member banks only. The term "bank balance" shall be construed to mean an accumulation of funds comprising an established account carried by one bank with another bank. The descriptive data in telegrams transferring such bank balances without charge must be limited to the name of the sending member bank, name of its correspondent member bank requesting the transfer, name of the member bank receiving credit, and name of its correspondent member bank.

3. When a Federal Reserve bank makes a charge against a member or nonmember clearing bank in connection with a telegram sent to or received from another Federal Reserve bank or branch, such charge should be based on the commercial wire rate (without tax on messages transmitted over the leased wires) regardless of whether the message is transmitted over leased or commercial wires. Proceeds of such charges shall be retained in each case by the Federal Reserve bank assessing the charge.

4. The Federal Reserve code, including test word, must be used for all messages involving the transfer of funds.

5. In addition to the usual mail advice to the bank receiving credit for telegraphic transfers of funds, immediate advice by telegraph, or otherwise, should be given by the Federal Reserve bank receiving the transfer in cases where the sending bank or the credited bank has stated that other than the usual mail advice is necessary, or where the nature of the transaction or the amount involved indicates that the additional expense is justified, as to which the receiving Federal Reserve bank will exercise its discretion. All such wire advices should be at the expense of the bank receiving credit and, therefore, should be sent collect.

6. Requests for telegraphic transfers of funds for consummation on date of receipt should not be accepted by Federal Reserve banks later than thirty (30) minutes prior to the closing hour of the Federal Reserve bank to which transfer is to be made. Any telegraphic transfers of funds requested after such time will be made at the discretion of the Federal Reserve bank receiving credit.

7. Except where a loss might be involved, the mails rather than the leased wires shall be used for reconciling exceptions in accounts between Federal Reserve banks.

8. Any loss resulting from negligence on the part of the Federal Reserve System in the transmission of telegrams transferring funds over the leased wires through relay stations shall be borne by the sending Federal Reserve bank, unless responsibility can be definitely placed upon the Federal Reserve bank to which the telegram was addressed.

9. Telegrams must be worded as concisely as possible. Telegrams should not be sent when communication by mail will suffice. For the purpose of enforcing these regulations, provision should be made in each Federal Reserve bank so that any misuse of the leased wires will be brought to the attention of a designated officer for reference to the originating department, or, in the case of incoming messages, to the sending Federal Reserve bank.

The following paragraphs under the respective headings should be included by all Federal Reserve banks in their circulars to member and nonmember clearing banks relating to telegraphic transfers of funds:

Transfers of Bank Balances for Member Banks

1. Telegraphic transfers between Federal Reserve banks and branches of bank balances in multiples of $1,000 will be made for member banks without charge. Such transfers will be made for and paid to member banks only. The term "bank balance" shall be construed to mean an accumulation of funds comprising an established account maintained by a member bank with its Federal Reserve bank or with another member bank.

2. The descriptive data in telegrams transferring bank balances without charge must be limited to the name of the sending member bank, name of its correspondent member bank requesting the transfer, name of the member bank receiving credit, and the name of its correspondent member bank.

3. Transfers for the benefit or use of an individual, firm, corporation, or nonmember bank and transfers of the proceeds of individual collection items or individual cash letters will not be made without charge.

Other Transfers

1. Telegraphic transfers of funds for any purpose and in any amount and without limitation as to descriptive data will be made for and paid to member banks subject in each case to a charge which will approximate but not exceed the commercial wire rate for the telegram or telegrams involved in the transfer. While such transfers will be accepted from and paid to member banks only, they may be for the use of any bank, individual, firm or corporation.

2. Telegraphic transfers of bank balances in multiples of $100 will be made for nonmember clearing banks subject to a charge as outlined in the preceding paragraph. Such transfers will be accepted from any member bank for the credit of any nonmember clearing bank, and from any nonmember clearing bank for the credit of any member bank or any other nonmember clearing bank.

3. Member and nonmember clearing banks should prepay the cost of telegrams requesting transfers that are subject to a charge, and telegrams to member and nonmember clearing banks advising of credit will be sent "collect".

Liability of the Federal Reserve Bank

The Federal Reserve Bank of _____ will use due diligence and care in the transfer of funds by telegraph to the receiving Federal Reserve bank for credit to the account of the payee bank, but will not be responsible for errors or delays caused by circumstances beyond its control.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 20, 1939.

Dear Sir:

In the Board's letter of March 15, 1937, X-9841, you were advised that the Board did not feel it would be warranted in asking for Congressional authority to destroy records accumulated by the Federal Reserve agents in the performance of certain nonstatutory functions for the full period from the date of the organization of the Federal Reserve banks to the date of the transfer of the nonstatutory duties of the agents to the banks until after a lapse of a reasonable period of time following the transfer. It appears to the Board that sufficient time has now elapsed to warrant its making such request but it does not feel that authority should be requested at this time to destroy any bank examination reports.

While authority will be requested to destroy other records from the date of the organization of the Federal Reserve banks to the date of the transfer of the nonstatutory duties of the agents to the banks, no records should, of course, be destroyed until after they have been held for the minimum retention period recommended in the report, dated June 11, 1936, of the Committee on the Destruction of Records maintained by the Federal Reserve banks nor until their destruction has been authorized by the Board. The minimum retention periods recommended in the Committee's report, in so far as they relate to the nonpermanent records accumulated by the Federal Reserve agents in performing nonstatutory duties, are shown in the attached statement (Exhibit 1).

As mentioned in the Board's letter X-9841, Congressional approval need not be obtained for the destruction of books, periodicals, newspapers, etc., that have been printed by others for general distribution, or for the destruction of surplus copies of like material printed at your bank for general distribution. It is also unnecessary to obtain Congressional approval for the destruction of auditing records, as such records are accumulated by the Chairman of the Board of Directors, not the Federal Reserve agent. It is intended, however, to request authority at this time, as mentioned in the Board's letter X-9841, for the destruction of nonpermanent records accumulated in connection with Federal Reserve note issues, in accordance with the

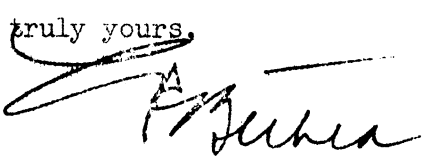
retention schedule in the Committee's report which is shown in the attached statement (Exhibit 2).

It is quite possible that, in addition to the records which were included in the Committee's report, authority may be desired to destroy other records accumulated by the agents in performing both statutory and nonstatutory duties. For example, the Committee, as stated on page 5 of its report, made no recommendations with respect to statistical reports received from sources outside the System and it would appear desirable for each agent to have such reports reviewed at this time. It will be appreciated if you will furnish the Board with a list of any records not included in the Committee's report which are now recommended for destruction.

The list of additional records recommended for destruction should show the title or description of the records, whether the material consists of "original" or "duplicate" copies, the period covered, the retention period recommended, and the approximate quantity of the records in linear feet. A sample of each item (preferably not a blank form), marked with an identification number, should accompany the list. It will not be necessary, however, to submit at this time samples of any items recommended for destruction in the Committee's report (see Exhibits 1 and 2) as such records are practically the same at all Reserve banks and it is our present intention to request one Federal Reserve Agent to submit a consolidated list, with samples, which will suffice for all agents. A similar procedure was recently followed in making a request for authority to destroy certain fiscal agency records (see Board's letter R-359 of December 14, 1938).

After recommendations for the destruction of additional records and the consolidated list referred to above are received, the Board will request authority from the joint Congressional Committee through the Archivist of the United States for the destruction of such records of the Federal Reserve agents as it appears desirable to destroy.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosures

TO ALL FEDERAL RESERVE AGENTS

EXHIBIT 1

MINIMUM RETENTION PERIODS RECOMMENDED IN REPORT, DATED JUNE 11, 1936 OF COMMITTEE ON THE DESTRUCTION OF RECORDS MAINTAINED BY THE FEDERAL RESERVE BANKS FOR NONPERMANENT RECORDS* ACCUMULATED BY FEDERAL RESERVE AGENTS IN PERFORMING NONSTATUTORY DUTIES

(Paragraph number is that shown in Committee's report)

Schedule A of Committee's report

Form No.		Retain
FRB 107 (2129)	Member banks Report of Earnings and Dividends.	5 years
FRB 105 (2130)	Call report and affiliate forms.	5 years
--	Inter-office communications regarding applications under the Clayton Act and Section 32 of Federal Reserve Act.	Until permit is no longer in effect or until records can serve no further useful purpose.
FRB 220 A-B	Report of affiliate or holding company of a member bank made in compliance with the requirements of the Banking Act of 1933.	5 years

Statistical Records

Page 5 of Committee's report

10. Information assembled with respect to trade or commerce should be retained in original form for a minimum period of three years if such information is subsequently printed and so becomes permanently available in printed form, but if such information does not become a part of any printed record the original records should be retained for a minimum period of ten years.

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*Except Bank Examination reports.

EXHIBIT 1 (cont'd)

Statistical Records (cont'd)

Schedule B of Committee's report

Form No.		Retain
--	Work sheets and copy of text of Annual Report of Federal Reserve Agent to Federal Reserve Board.	2 years
FRB B 804*	Federal Reserve Board's condition statement of weekly reporting member banks.	1 year
FRB 209*	Report of prevailing interest and discount rates.	1 year
--	Member bank's weekly condition report.	1 year
--	Monthly review - copies of text sent to Federal Reserve Board.	1 year
FRB B 814*	Daily Federal Reserve Board statement for the press.**	6 months
FRB B 801*	Weekly Federal Reserve Board statement for the press.	6 months
--	Monthly review mailing list requests.	Until next revision

*Mimeographed statement issued by Board of Governors and may be destroyed in discretion of each bank without Congressional authority - should not be included in consolidated list.

**Form B-814 is entitled "Confidential daily summary" and is not for the press.

EXHIBIT 2

MINIMUM RETENTION PERIODS RECOMMENDED IN REPORT, DATED JUNE 11, 1936 OF COMMITTEE ON THE DESTRUCTION OF RECORDS MAINTAINED BY THE FEDERAL RESERVE BANKS FOR NONPERMANENT RECORDS ACCUMULATED BY FEDERAL RESERVE AGENTS IN CONNECTION WITH FEDERAL RESERVE NOTE ISSUES

(Paragraph number is that shown in Committee's report)

Records in connection with F. R. Note Issues

Page 5 of Committee's report

7. Inter-office communications regarding the issuance and retirement of Federal Reserve Notes should be kept for a minimum period of two years.

Schedule A of Committee's report

Form No.		Retain
FRB 45	Requisition to Federal Reserve Board for Federal Reserve Notes.	2 years
FRB 44	Report to Federal Reserve Board of Federal Reserve Notes - received, issued to bank, returned to Comptroller and on hand by denomination and aggregate amount.	2 years
FRB 194	Report to Federal Reserve Board of receipts and issues of Federal Reserve Notes and amount of Federal Reserve Notes and gold certificates on hand.	2 years
TREAS 2328 2329 2330 2328A 2329C 2330A	Advice to Comptroller of Currency of issue, return or reissue of Federal Reserve Notes and Bank Notes.	2 years
--	Vault deposit and withdrawal tickets used in Federal Reserve Agent's Function in connection with currency transactions.	2 years except in case of segregated cash under seal, in which case the records should be kept until seal is broken and currency disposed of.

S-166

TELEGRAM

June 22, 1939.

YOUNG - BOSTON
HARRISON - NEW YORK
SINCLAIR - PHILADELPHIA
FLEMING - CLEVELAND
LEACH - RICHMOND
PARKER - ATLANTA
SCHALLER - CHICAGO
MARTIN - ST. LOUIS
PEYTON - MINNEAPOLIS
HAMILTON - KANSAS CITY
GILBERT - DALLAS
DAY - SAN FRANCISCO

Referring letter R-488 of June 16, please furnish as of next and future call dates summary statement showing amount of each item one to five, inclusive, on face of member bank call reports, separately for (1) central reserve city member banks, (2) reserve city member banks, and (3) country member banks. If practicable, statement should be mailed to reach Board within three weeks from date of announcement of call.

(Signed) L. P. Bethea

BETHEA