

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



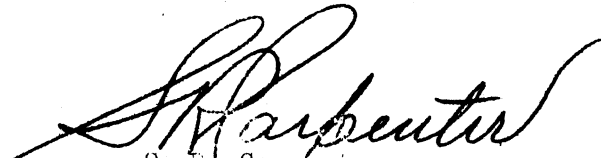
July 19, 1939.

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

You will find that the present summary is much shorter than those that have been sent to you in former months. It will be appreciated if you will inform the Board whether you consider the summaries of sufficient value to warrant their continuance, and, if so, whether you would rather have them shortened to the present length or made more inclusive, or otherwise modified.

Very truly yours,


S. R. Carpenter,
Assistant Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-506-a

July 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 June. 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:

Boston reports that in practically every one of 40 country member banks in New Hampshire and Connecticut visited during June loans were in somewhat greater volume than a year ago and that earnings for the first six months were above those for the same period last year. Other Federal Reserve banks also report an improved demand for loans in some parts of their districts.

Though the demand for credit is slack, there are numerous complaints by bankers that the attitude of examiners is officious, unreasonable, and unfair. Philadelphia mentions reports of cases where, when payment of a loan criticized by examiners was requested, the borrower transferred the loan to a Government agency.

Richmond and Minneapolis report that many farmers who receive substantial Conservation and AAA payments do not know why they are receiving them.

On the whole, the reports give the impression that, though much dissatisfaction exists, the business situation has improved.

BOSTON

During June visits were made to forty member banks located in the smaller towns and cities of New Hampshire, and to six country banks in Connecticut.

At practically every bank visited loans were in greater volume than a year ago and earnings for the first six months of the current year above those for the corresponding period of 1938. In most cases the loan expansion was said to be from 10 per cent to 15 per cent and made up largely of small loans to individuals, and mortgages on residential and farm properties. Financing in connection with the salvaging of the timber blown down by the hurricane of last

fall accounted for some of the increase in loans shown by New Hampshire banks.

Lending rates range from 6 per cent downward, the majority of loans carrying the 6 per cent rate. Loans made to towns in anticipation of tax receipts, where the towns are borrowing locally, carry rates of 3 per cent and 4 per cent. In New Hampshire the smaller country banks complain quite generally of outside competition for town loans and there was some complaint that this competition extends to other classes of loans.

NEW YORK

During the month of June, our officers and representatives visited 226 banks, of which 161 are member and 65 nonmember institutions. This total comprises banks located in different sections of the district -- one county in New Jersey and twenty-one counties in New York State.

Monmouth County, New Jersey

The continual shrinkage in loan portfolios and the lack of a profitable outlet for funds is having an adverse effect upon income, and some banks are showing rather modest earnings after paying dividends on their preferred capital issues. Several bank executives point out that they have many bonds which will be called within the next few months, and say they will be unable to invest the money except at a greatly decreased yield.

Clinton, Essex, Franklin, Jefferson, Lewis and St. Lawrence Counties, New York

The demand for loans in this territory is in general reported to be light, although the present total of \$37,700,000 shows an increase of nearly \$900,000 in the last six months. Most of the increase is accounted for by three of the larger banks, which have been able to expand their loan accounts as a result of increased financing of automobile sales, development of personal loan departments, and otherwise going after business more aggressively. A majority of the smaller banks show a decrease, due largely to a lessened demand from farmers who constitute the bulk of their clientele, and to a closer scrutiny of credit risks. These banks are in general holding to a 6 per cent rate on loans. Several bankers complained of the competition from the Production Credit Corporation which has granted loans at rates as low as 3-1/2 per cent, and also of an Albany bank which is said to be soliciting loans from school districts and villages at 3 per cent. One nonmember banker expressed hesitancy

over making loans because of examiners' criticisms and mentioned a case where the examiner urged the collection of a loan made to the owners of a local paper mill and thereafter suggested that a personal loan department be established, the principal field for which would be among the employees of the mill.

Summary of Preferred Capital Issues

In the twenty-two counties visited, there are 185 commercial banks, 114 of which issued preferred stock, capital notes or debentures aggregating \$19,384,780 par value. Up to the present time twenty-eight have paid off their entire issues amounting to \$6,405,000 and sixty-two have made partial redemptions aggregating \$2,754,120 and twenty-four have not retired any — leaving eighty-six banks with a total still outstanding of \$10,225,660 par value, retirable at \$14,515,092, reflecting a redemption premium of \$4,289,432.

PHILADELPHIA

East Central Pennsylvania

Conditions in the area visited vary from fair to good. While they are not exceptionally good in any particular spot neither are they very bad. Much of the territory covered lies within the anthracite region where seasonal fluctuations result in a low level of activity during the summer months.

Total deposits of all banks visited are about \$500,000 greater than a year ago. A majority of the investment accounts still contain depreciation, but, as a rule, the quality of the investments appears to be improved. An increasing number of bankers report an improved credit demand, but there still appears to be a shortage of commercial loans. However, a substantial volume of personal and consumer loans has been developed by the banks. Interest rates vary but usually range from 5 per cent to 6 per cent, although in one section mortgage money is available at 4 per cent and 4-1/2 per cent.

Several bankers commented upon the classification of loans by examiners from another supervisory authority, stating that they were too severe and that their insistence that loans be called was unfair. Instances were cited where, as a result of criticism by the examiners, payments were requested resulting in customers obtaining from a Government lending agency money with which to repay the loan to the bank. These officers are quite incensed about this condition, some even inferring that it is planned to bring about this result. One banker stated that his institution had lost a loan for \$8,000, which he would consider of sufficient quality for a personal investment. It is conceded by these officials that the loans are slow but

they appear to believe that their soundness is proved by the ease with which the customers can borrow from the Government agencies.

CLEVELAND

Some expressions of complaint are coming from member banks with respect to small charges generally associated with collection items which have been levied against member banks. Comment most frequently heard is that correspondent banks usually absorb such charges. If the assessment of small items of cost is to be a source of irritation to member banks, some consideration might be given to the question whether the absorption of such charges by Reserve banks would be justified.

In some of the smaller industrial communities in southwestern Ohio conditions are showing some evidence of improvement. A number of banks are reporting a more active demand for funds, particularly in the rural sections.

Nervousness amounting in some cases almost to apprehension concerning the future of bond prices is causing some banks to take profits in their investments, but they experience difficulty in placing funds obtained through bond sales.

RICHMOND

Southwestern Virginia

In the course of the last several months more than \$50,000 in Conservation checks have been paid out to 1,500 Franklin County farmers, while Floyd County farmers received about \$30,000 and those of Patrick County, \$42,000. These payments have contributed materially to the welfare of the farmer, but it seems that some of the recipients do not know why they receive the payments.

Most banks report an increase in both loans and deposits as compared with the same period in 1938. The great bulk of the loans are made locally and the rate is generally 6 per cent. However, one bank has been buying "outside" commercial paper on a 1 per cent basis, with occasional competition from local manufacturing concerns. Another bank holds \$250,000 in certificates of deposit of other banks upon which interest is paid at 1 and 2 per cent.

There is a disposition on the part of banks to compete actively for new loans, especially where they have idle funds, and the opinion prevails that no good loans are rejected. It is said

that Federal lending agencies are fairly active and that they take some desirable business away from the banks. On the other hand, they make loans that banks will not consider and it is held that these are of material assistance to the community.

At Martinsville (Henry County) there is strong competition from northern lenders, one Boston broker having recently made a six-months loan for \$50,000 at 1-1/8 per cent.

Northeastern West Virginia

Most banks report an excellent demand for loans. In a few instances banks have been able to place all of their funds in local loans and thus have escaped the problem of investing in bonds. Borrowers are usually charged 6 per cent and it is thought that this rate does not deprive banks of desirable business. It is realized that certain Government agencies, particularly Production Credit Associations, are in competition with banks, but the impression prevails that loans made by them are not bankable.

ATLANTA

Central Louisiana

The banks visited in this section, located at Alexandria, Lecompte, and Bunkie, serve a very fertile agricultural territory principally devoted to production of cotton and feed crops. During recent years, much progress has also been made in the development of a very profitable cattle raising industry in this section.

It was reported that, although business conditions throughout this section have been comparatively good during recent years, considerable improvement has been noted in all activities during the past twelve months. Retail trade has been favorable and considerable building, both commercial and residential, is in progress.

Officers of the banks visited consider banking activities in the section favorable. Demand for agricultural and commercial loans has been good since the first of the year, and earnings for the period have been satisfactory. Deposits continue to increase and some concern was expressed by bankers at the inability to invest excess idle funds profitably. The banks, especially in Alexandria, are encouraging personal loans as well as the financing of sales of automobiles and farm machinery, which business they are finding profitable.

CHICAGO

Bankers in Wisconsin blame the Government spending program for the low returns on investments and feel that a serious condition is impending. With returns on investments diminishing, they feel more keenly the competition of Postal Savings. The Federal Savings and Loan Associations, whose advertisements indicate that they are paying 3-1/2 per cent on deposits insured by a Federal agency, are becoming more popular with the public. In practically all of the smaller agricultural centers, savings deposits constitute from 60 to 80 per cent of total deposits. This condition does not permit very much income from service charges and adds a burden due to the interest paid on deposits. In order to meet this condition, the smaller banks are developing personal loans secured by chattels, automobiles, or equities on life insurance policies. The competition of the Production Credit Corporation in making chattel loans is evident in many sections of the State. On the whole, the banks are just marking time, but consider it an injustice for the Government to pay 2 per cent on a demand loan at the Post Office and 3/4 of 1 per cent on a five-year Treasury note.

The discrimination between member and nonmember banks in the establishment of branches or paying stations is also noticeable. One bank cited a case where a paying station was opened within three miles of their office by a nonmember State bank twenty miles distant.

Interviews with bankers in both Illinois and Wisconsin disclosed considerable criticism of the attitude on the part of bank examiners of another supervisory authority with particular reference to chattel mortgages.

ST. LOUISSoutheastern Missouri

At a majority of banks visited, it was reported deposits were up slightly, as compared with a year ago, and demand for loans is a little better. Several banks indicated they were planning to reduce the rate of interest paid on time deposits.

Very few of the nonmember banks in southeastern Missouri are on the par list. In every instance where such nonmembers were approached regarding membership, the answer was the advantages of membership would not offset the loss of revenue which would result from giving up exchange on checks received through the mail. The conversations regarding the practice of charging exchange developed

that few banks tried to justify what they are doing, but look upon it as "easy money" income. Several bankers stated that they were surprised that something has not been done to stop the practice. One informed us that he was ready to come back on the par list when others in his vicinity did so.

As a rule, earnings have been substantially buttressed by service charges. Interest paid on savings deposits ranges from 1 per cent to the maximum rate of 2-1/2 per cent, but some banks will not take interest bearing deposits. A number of banks have lowered their rate, and blame interest on deposits as partly responsible for low earnings. There were also complaints of increased and still mounting taxes. Rates charged on loans range from 4 to 8 per cent and it appears that rates charged are in inverse ratio to the size of the towns in which the banks are located. Reports relative to earnings disclosed a broad range of results; from coming out just about even to 20 per cent on paid-in capital in 1938.

MINNEAPOLIS

When we received recently a letter from the State Bank of Rockville, Rockville, Minnesota, asking us questions relative to Federal Reserve membership, it was felt that under no circumstances would this bank give serious consideration to membership because, if they did, they would be deprived of an income in an amount equal to about 10 per cent of their capital through loss of exchange revenue. A meeting with their board of directors was arranged, however, at which time they passed a resolution applying for membership and the completed application has since been received.

This bank has always been off our par list. It is a small bank with deposits of approximately \$200,000. It reopened without any restriction of deposits after the banking holiday.

In discussing membership with their board, it was discovered that the cashier and one of the directors had a very thorough understanding of the Federal Reserve System, and that it was unnecessary to explain its functions and purposes and the benefits they would receive if they became a member. When asked how it happened they had such a thorough knowledge of these matters, they replied that they had received from the Board of Governors at Washington a book entitled "The Federal Reserve System, Its Purposes and Functions", which they had very thoroughly read and digested. They said that before reading it they had no knowledge whatsoever of what the Federal Reserve System really was, and that after reading it they were so impressed they concluded that as a small independent bank they could not afford to be out of the System even though their income

would be materially reduced because of loss of exchange. There is no doubt that the membership application was a direct result of the preparation and distribution of the book.

Southern Montana

A number of bankers expressed the opinion that the Government's AAA program is all wrong--not workable--and said that many of the farmers and ranchers feel the same way. They stated that the creation of an activity by the Federal Government often has an adverse effect elsewhere. It was reported in one town that there was much talk among farmers who received AAA checks this spring and didn't know what they had done to earn them. The checks were cashed, however, and they were glad to get their share of AAA funds that are being distributed.

KANSAS CITY

Bankers in all parts of the Tenth District report the physical condition of their localities to be the best in years.

Bankers in Wyoming appear generally satisfied with livestock and wool prices, and seem much less concerned about the livestock industry than they did a few years ago.

Banks in Colorado are giving a good deal of attention to service charges. Outside of the cities there appears to be a reasonable demand for loans. With respect to banker complaint of Government competition in making loans, there is a good deal of variation. In some communities little complaint is heard, while in others it is exceedingly bitter. Apparently much depends upon the persons in charge of these Government agencies.

Many bankers complain that the Government wants to run banks instead of supervise them. Last month attention was called to the bitter complaint regarding examiners from another supervisory authority. Even more cases were found in June of this same thing, especially in certain sections of southwestern Missouri. Bankers complain that these examiners have no knowledge of the communities in which they are working and that they are highly officious. One banker reported that these examiners requested him to rearrange his cages and cut a hallway through one side of the banking room to connect the lobby with the back part of the bank. This examiner also ordered him to stay away from the windows and limit his dealings with customers to his desk in the back part of the bank. In the case of some small banks, many bankers think the Government is determined to close their institutions in one way or another.

One bank complained that the reserve requirements are too high. This single case is reported as complaint of this kind is heard much less frequently than formerly.

DALLAS

Central West Texas

General economic conditions in this section of Texas were found to be fairly satisfactory, although ranges and crops are beginning to suffer from an incipient drouth, which has delayed cotton planting, necessitated replanting in certain areas, and threatens to curtail feed crops.

Deposits show a general increase over those of 1938 and loans a sizable decline.

The exodus of tenant farmers to towns and cities, which has been in progress for the past two or three years as the result of curtailment of cotton acreage allotments and the steady expansion in the use of tractors, has continued unabated and is adding considerably to the unemployment problem of the larger towns, although it has not materially affected agricultural production.

Southern New Mexico

The fourteen banks visited in our portion of New Mexico reported that there had been a decided change for the worse in the physical condition of the territory. A mild winter and spring with more than the usual amount of moisture had put livestock ranges in excellent condition, but during the past two months the southern half of the State has received practically no moisture. Intense heat waves, accompanied by strong hot winds, have burned the ranges so severely that producers have been forced to begin feeding cattle, and unless rains occur soon, the necessity for feeding will become general.

Despite the recession in business activity, the banks are showing satisfactory earnings and many of them feel that their profits this year will exceed those of any recent year.

SAN FRANCISCO

Salt Lake City Branch Territory

Generally speaking, crops are a little below average due to the late spring and lack of seasonal rainfall. However, there is

sufficient water in storage to supply adequately all the more important irrigated lands. Livestock ranges are drying, but not seriously as yet. Residence building has been fairly active in the larger cities and towns, and the volume of retail trade is reported as running slightly in excess of last year.

Clearwater District of Idaho

The Clearwater District of Idaho produces wheat, beans, peas, and livestock and has large lumber mills producing pine lumber. The agricultural outlook is very fine. The pea crop is practically made. Because there has never been a crop failure, the normal bean crop is expected.

Cattle and hog producers will turn out the usual production in their lines this year. The cherry crop matured nicely, but at picking time the rains created a damage of approximately 40 per cent.

Mining continues to be quite active.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

June - 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	49	--	49	4	<u>1/</u>	1	400
New York	161	65	226	12	3,490	--	--
Philadelphia	75	25	100	--	--	--	--
Cleveland	66	21	87	<u>2/</u> 5	1,490	<u>1/</u>	<u>1/</u>
Richmond	48	17	65	4	1,085	<u>3/</u> 3	203
Atlanta	5	3	8	1	300	1	350
Chicago	54	40	94	5	4,324	<u>3/</u> 3	1,100
St. Louis	47	150	197	4	1,662	3	120
Minneapolis	112	86	198	5	3,370	1	40
Kansas City	39	36	75	4	481	2	85
Dallas	30	3	33	2	1,400	1	100
San Francisco	42	24	66	11	1,056	3	464

1/ Not reported.2/ Attendance not reported for one meeting.3/ One radio broadcast.