



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

101

R-538

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 18, 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 August, 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.

September 13, 1939.

To: 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 August. 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.

It should be borne in mind that the reports submitted by the Federal Reserve banks ordinarily do not include the whole of the bank's district, but only a certain portion or portions thereof covered by current visits. The following are a few of the items of interest included in the reports:

A subject of general interest perhaps more frequently mentioned than any other is improved bank earnings. These are commented upon by fully half of the Reserve banks.

Improved business conditions are also the subject of rather general comment.

Chicago reports a more active market in farm lands, though with no advance in prices.

Some of the reports include reference to the European war and its effect upon agricultural prices and bond portfolios.

BOSTON

During August visits were made to fifty-eight member banks, seven branches of member banks and eleven nonmember banks. No large industrial city was included in the itinerary, most points visited being principally summer resorts and small trading centers in Maine, Massachusetts, and Vermont. Scattered throughout the sections visited are a number of cotton, woolen, and paper mills, shoe factories and wood-working plants, all, at the time, reported to be gradually increasing both working hours and employment.

In the agricultural sections, along the Connecticut River in Massachusetts and in central and northern Maine, crops were reported to be adversely affected due to unfavorable weather conditions during the early growing season.

There was no general complaint on the part of the banks visited, and at no bank was any criticism heard of the operations and policies of the Federal Reserve System or of this bank. The banks generally referred

to a lack of sufficient volume of loans and satisfactory investment outlets, but practically at all banks visited deposits and loans had increased within the last six months and earnings for that period were greater than for the corresponding period of last year. Concern as to possible unfavorable trends in the Government bond market was evident from conversation with a number of bankers. This became increasingly apparent during the last week in August and the position of the Board of Governors and this bank in relation to the member banks holdings of Government securities, as recently announced, answers directly the question often asked by member bankers as to the support the member banks might expect through the loaning facilities of the System.

NEW YORK

Allegany, Livingston, and Wyoming Counties (Buffalo Branch Territory).

At the present time thirteen banks are paying 1-1/2 per cent on their time deposits, and twenty-two institutions pay 2 per cent. The seventeen banks of Allegany County are included with those institutions paying the higher rate, but the Allegany County Bankers' Association is giving consideration to a rate reduction to take effect October 1. It is not believed, however, that concerted action will be taken, as the managements of four of the banks are not in favor of any change. The officers of these banks express the opinion that earnings in their particular institutions justify continuance of the 2 per cent rate. One is paying dividends to common stockholders at the rate of 8 per cent per annum, another is paying a 7 per cent dividend, and officers of these institutions say they feel it would be unjust to penalize depositors when they can afford to pay large dividends to stockholders.

Suffolk County.

Several of the investment portfolios consist almost entirely of Government securities and for this reason most of these banks have eliminated their bond supervisory services and now depend chiefly on their New York correspondent banks and brokerage houses for bond information. More than half of the banks in the county have some appreciation in their list and only two have a depreciation which is causing concern.

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

Interest on savings deposits is being paid at the rate of 1 per cent in conformity with the order issued by the Commissioner of Banking and Insurance of New Jersey on June 15. Although a majority of these banks heretofore paid interest at 1-1/2 per cent, the officers of all but a few banks express dissatisfaction with the reduction ordered by the supervisory authorities. The chief comment is that it falls on the depositor who is least able to bear it and will work a hardship on many old and retired persons who have depended upon the income from their savings to meet living expenses. A number of bankers express the opinion that this low rate will tend to destroy the incentive for saving, and some believe it will divert savings into speculative securities. Several assert that the

State Banking Department initiated the reduction to save weak state institutions which should not have been allowed to reopen after the banking holiday. One banker remarked that it is paradoxical for the supervisory authorities to say that banks cannot pay more than 1 per cent on savings while the Government pays 2.90 per cent on United States Savings Bonds, and that it appears to him the reduction was a move to drive savings out of the banks. It is reported that few withdrawals of deposits resulted from the reduction in rate, but that sales of United States Savings Bonds in the State showed a large increase during July. It is expected that the lowering of the interest rate will bring about a decrease in expense, and several bankers state that they now can afford to buy better grade bonds. An officer of a nonmember bank, which owns considerable other real estate, has noticed an increase in the number of inquiries for properties recently, and believes savings will gradually be invested in real estate which will be of material benefit to many banks.

Summary of Preferred Capital Issues.

In the eight counties covered by this report, there are 114 commercial banks, 71 of which have issued preferred stock, capital notes, or debentures aggregating \$7,693,570 par value. Up to the present time twenty-three have paid off their entire issues amounting to \$1,678,000, thirty-seven have made partial redemptions aggregating \$1,741,310, and eleven have not retired any - leaving forty-eight banks with a total still outstanding of \$4,274,260 par value, retirable at \$5,824,528, reflecting a redemption premium of \$1,550,268.

PHILADELPHIA

East-central and Southern Pennsylvania.

Conditions in the area covered by this report show an improvement over those of a year ago. Textile plants in several towns are operating extra shifts and, except for the iron and steel industry, industrial activity presages a much brighter future. The American Car and Foundry Company has had its engineers working 24 hours a day for the past several months, experimenting with electric welding. This company was said to have a large order for tank cars to be used in the transport of wine, but operations thereon will not be started until the electric welding method has been perfected. A nationally known radio company has increased its force from 400 to 1,000 persons within the past year and, according to reports, will employ about 1,800 within the next twelve months.

The anthracite industry experienced good business last winter and in several sections operations have been fairly well maintained throughout the summer. The stock of coal usually carried above ground at this season of the year has been depleted because of extra orders resulting from the bituminous coal strike and it will, therefore, be necessary to increase production as the season of heaviest demand is approaching. The principal cause of concern in this industry at present appears to be the lack of stabilization of prices. The smaller coal companies, generally, are

operating on a very limited capital and, in order to get money for pay rolls, many sell stocks of coal for whatever price can be obtained.

Conditions in the agricultural sections are fairly satisfactory. Although early crops were disappointing because of dry weather, recent rains have improved conditions to the extent that late crops have produced very well. The chief complaint of the farmers was said to be low milk prices.

The real estate market is quiet. Houses are well rented at satisfactory figures, but few sales are being effected. Several communities report a shortage of houses but the need has not as yet resulted in any appreciable amount of new construction.

There is only a fair demand for credit and the lack of earning opportunities is a serious problem at many banks. In an effort to increase income, several banks are purchasing FHA mortgages and their experience to date has been most satisfactory.

Bond accounts in most instances are worth less than book value. Several bankers reported that they are making every effort to strengthen their holdings and have confined recent purchases chiefly to Government obligations.

The cashier of a national bank, having about \$10,000,000 in deposits, complained about the insistence of examiners that greater reductions be obtained on slow loans. He contends that, as a result of the bank's efforts to comply with the examiners' recommendations, many borrowers will cease to do business with the institution as soon as their current loans are repaid. This banker stated that he is of the opinion the Federal Reserve banks should examine all member banks within their districts as he believes their examiners to be better qualified than other bank examiners.

The president of a national bank, with deposits of about \$1,400,000, contends that examiners are entirely too critical regarding loan liquidation. He stated that, because of constant criticism, his directors have adopted a loaning policy which he considers to be unnecessarily rigid.

CLEVELAND

Our regular bank visitation program was suspended during vacation season and will be resumed about the middle of September, following five group meetings in the State of Ohio.

During the month of August, six Ohio State banks were admitted to membership in the System. Total resources of these institutions are \$5,490,000. Ten additional applications for membership have been received, and nine of these banks have already been examined.

During the month, twenty-two visits were made to nonmember banks for conferences with bank officers or directors, looking to membership.

RICHMONDPrince Georges and Montgomery Counties, Maryland.

These two counties, bordering on the District of Columbia, have become increasingly suburban communities, and with this development agriculture has become relatively less significant. The same may be said of Arlington and Fairfax Counties on the Virginia side of the District.

There has been a marked growth of residential and personal loans, both on an amortization basis. The volume has been so good that banks have had little need to invest in bonds, although some Treasury issues have been purchased for what is referred to as "secondary reserves". There is still some credit extension for agriculture, but the volume has declined and is relatively small.

It is reported that the present trend towards real estate loans is considered much safer than that which developed prior to 1929. For one thing, there is an avoidance of concentration and a better distribution of risk. Moreover, it is believed that Government employees are far less likely to default or fall in arrears of payment, because they are not so subject to cyclical business fluctuations as are members of agricultural and industrial groups.

Southwestern Virginia.

Generally speaking, the volume of loans has been well maintained, largely because of the greater interest on the part of bankers in personal income loans and in a more aggressive attitude with respect to new business. Most banks charge 6 per cent on loans, but lower rates are made for especially attractive loans. Here, too, some banks maintain that they should pay as high a rate as possible on time deposits because their depositors "stuck by them" during the banking troubles. Hence the incentive to charge 6 per cent on loans.

For the augmentation of earnings there is a growing tendency to install service charges, but there is no great uniformity of practice and a reluctance to adhere rigidly to any schedule that may be proposed. There is evidence of adjustment to changed economic conditions, but there is hesitation and even resistance to change, particularly with respect to the 6 per cent rate on local loans. Nevertheless, most banks have experienced a profitable half year of operations and so long as this continues they are not disposed to change their methods.

Southwestern West Virginia.

In addition, an increasing number of banks are availing themselves of service charges, though the methods employed are not uniform. It is reported that the West Virginia banking authorities favor a uniform schedule of service charges and that, in some manner, it has been rumored that the Board of Governors favor a similar plan for member banks.

Western North Carolina.

There has been a fair demand for loans and this has been stimulated by aggressive action of banks that have encouraged customers to borrow from them rather than from trade creditors and others. The bulk of all loans are made at 6 per cent, a smaller volume at 5 per cent, and a few at 4 per cent. There is competition from outside banks for the business of the larger and better known manufacturing concerns, but this has not been sufficient to induce a lowering of the lending rates.

As for earnings, it may be said that banks in this region will show better earnings for the first half of 1939 than for the corresponding period in 1938. In this respect member banks are handicapped relative to nonmember banks, because the latter derive considerable earnings from exchange charges. This is a factor which often makes for lukewarmness on the part of member banks towards membership in the Federal Reserve System and it is the chief obstacle to encouragement of membership among nonmember banks.

ATLANTANorth Alabama.

All of the banks visited are in towns located in farming sections. Gadsden and Huntsville serve agricultural trade areas and, in addition, possess a number of manufacturing concerns. These two cities are very prosperous and optimism prevails. Practically all the plants in Gadsden are operating on full schedule. A number of textile mills are located in Huntsville and it was reported that, with the settlement of labor difficulties, three large mills are now on a full time basis.

The crops in the section visited are in excellent condition. This is especially true of the cotton crop and it is expected that the yield will be at least as large as that of last year.

Southeastern Alabama and Southwestern Georgia.

The bankers in the towns of Newnan, LaGrange, and West Point, Georgia, and Opelika and Montgomery, Alabama, all reported that the textile mills in their localities were operating on a full time basis. The employment situation is satisfactory, and the mercantile establishments are doing well. Crop conditions in the section northeast of Montgomery, Alabama, are good.

Several of the bankers visited stated that their experience with FHA loans had not been altogether satisfactory, due to the time required to service the loans properly and to keep in touch with the physical condition of the properties. Several of the banks have disposed of their FHA loans, with the exception of a number of selected risks.

Very favorable comment was heard from a number of bankers with regard to the statement of operating ratios prepared by the Federal Reserve

Bank of Atlanta covering member bank operations for the year 1938. The bankers stated that such information was helpful in comparing the results of operation of their own bank with those of other banks in their group, and several of the bankers stated that such comparisons had been brought to the attention of the directors of their banks.

Northeastern Georgia.

As a general rule, the present condition of the cotton crop in the section visited is good, although the corn crop is only fair. With few exceptions, deposits are up and loans little changed. While most of the bankers stated that they were looking for good loans and investments, all reported nevertheless that earnings were more or less satisfactory and that dividends were being paid.

Middle Tennessee.

Present and prospective banking conditions in a wide area surrounding Nashville are extremely favorable. All of the banks visited are anticipating good profits for the year.

The agricultural outlook for the section visited, which is devoted largely to Burley tobacco, is extremely favorable at the present time and unless there is an unusual amount of rainfall the tobacco crop should be of excellent quality and demand a good price. It is expected that a large amount of money will come to this section this fall from the sale of live stock. The bankers are very much encouraged by the increase in demand for loans. Sentiment toward the Federal Reserve System continued to be favorable.

CHICAGO

Bankers from Aurora, Springfield, Decatur, and Bloomington, Illinois, and Fort Wayne, Indiana, report earnings for the six months of 1939 ranging from 12 to 22 per cent in excess of earnings for the corresponding period last year. Recent reports from numerous other banks indicate improvement in investment accounts, and a great many have eliminated their sub-standard bonds. A majority of banks that have had non-recurring bond profits have conserved these profits in various forms of reserve in order to take care of anticipated bond depreciation. Some banks are enjoying moderate gains in loans, largely attributable to FHA loans. Country banks continue to show a larger percentage of excess reserves than other classes of banks.

Two national banks in the Seventh District made application for conversion into State institutions, and one nonmember State bank applied for a National charter. Three applications for membership in the System were received by this bank during the month.

Crop prospects are excellent. Favorable weather conditions the last week in August benefited corn by hastening maturity of the crop.

In some parts of the district, more interest has been displayed recently in farm lands. While prices have not increased, there is a more active market with considerable land moving.

Sales of Seventh District department stores in August exceeded those of the corresponding month a year ago, and in the first eight months of the year were larger than in the same 1938 period.

Some increase in employment has been shown in the district during August. Pay rolls for manufacturing industries in Illinois, Indiana, and Wisconsin are up slightly, while there is practically no unemployment in rural districts, where a great deal of activity is reported by lumber companies, some of this due to building granaries and to residential building which has increased sharply.

ST. LOUIS

Taken as a whole, demand for bank loans in the Kentucky area was somewhat better than a year ago, reflecting moderate expansion in general business. Reports relative to profits varied widely, but nowhere were results superlative. Rates paid on time deposits range from one per cent to the legal maximum. There is a disposition in some communities to abolish interest-bearing deposits; a number of banks have already discontinued the practice. Rates received by the banks on customer loans range from 4 to 8 per cent. As elsewhere in the district there is general complaint of Government competition on loans, agricultural and building chiefly. Likewise there was outspoken dissatisfaction with the attitude of bank examiners and the close supervision of banks by the Government agencies. Rising taxes and scant demand for loans cut into profits. The sale of real estate loans by banks to their customers is not an uncommon practice.

One bank reported a good demand for small loans and because of limited funds available to meet such demand, the bank accepted three deposits of \$5,000 each for six months at a rate of 2-1/2 per cent. One of the deposits was made by another bank. This prompted inquiry by examiners, who apparently questioned the advisability of such deposits.

In the four Illinois counties, bank earnings, so far this year, are as good or better than for similar period in 1938. All the way from 1 per cent to the maximum allowed is paid on time and savings deposits, there being no uniformity in at least two of the cities visited. A number of banks that were paying 2 per cent or higher, stated they were giving serious consideration to reducing the rate paid on such deposits.

Six nonmember banks, believed to be eligible for membership, were visited, two of which displayed mild interest in membership, but leaned toward taking out national charters to get away from the double liability on stock. The president of one other bank stated he wanted to defer membership because of being afraid of too much domination by Washington.

More complaint was voiced, regarding what was termed the drastic policy of examination followed by the State and Federal bank authorities, than ever before.

The cashier of an Arkansas national bank made the comment that the State nonmember located in his town had taken some good business from his bank by establishing a branch in a nearby town. He felt that the discrimination against national banks in this connection should be corrected and that a State bank operating a branch should be under more strict supervision of supervising authorities.

MINNEAPOLIS

Northwestern Wisconsin.

Bank earnings in this area were universally reported to be satisfactory and there were a number of banks whose earnings are outstanding. The earnings have been wisely used to complete the clean-up of bond depreciation and other undesirable items before dividend payments are resumed. The demand for loans is increasing although most loans are of the monthly pay-off, dairy type and repayments nearly offset the new loans. A few banks have increased the size of their lending territory by encouraging the drivers for creamery companies to bring in loan applications from distant customers.

Only three nonmember banks in this area are eligible for Federal Reserve membership, i.e., have sufficient capital and no branches and are on the par list. None of the three expressed an interest in membership at this time. One of these banks would probably find its operations somewhat curtailed by Federal Reserve membership, for its largest borrowing customer is the President of the bank who operates a factory in the community.

There was no interest in the revision of Regulation J and the time schedule of our check collection department. Banks in this area send their checks to Milwaukee and object to sorting the par items and nonpar items separately. One banker stated that if we would take all items, whether par or nonpar, he would be glad to send all of his out-of-town checks to us for collection. Many of the nonmember State banks in this area operate stations which range all the way from a teller's booth in a butcher shop to banks which have enough deposits and enough activity to support an independently owned State bank. One or two of the stations are self-supporting on the basis of the volume of loans and deposits drawn from the community which would not flow to the parent bank without the existence of the station. Some of the stations are not self-supporting and the managers operate some other business, such as insurance to eke out a living wage. One station was stated to be operated entirely as a service to the store and other interests of the community which are owned by the principal stockholders of the parent bank.

There was much talk of the possibility of a European war and the effect of such a development on banking. None of the bankers seemed

apprehensive, for it was the general opinion that agricultural prices would rise in case of war and the farmers would have a period of prosperity.

Northeastern Minnesota and Northwestern Wisconsin.

Banking comment was almost entirely of a cheerful nature, especially in the strictly country banks where borrowing rates are never materially lowered, irrespective of the rates on deposits. There were not many banks where the local demand was sufficient to absorb available funds, but the broadened scope for charges now in effect at most banks has brought profits, in some cases, greater than in previous good years. One National bank paid 20 per cent last year, mainly because of a big insurance business. Automobile paper is giving many banks an important addition to revenues and the desire to get such paper has resulted in some lowering of rates. Housing paper is generally acceptable. Most paper being taken is on a fixed payment plan and a high percentage of loans at practically every bank require monthly payments.

Northwestern Minnesota.

Earnings at a large percentage of the banks visited are good. With a reasonably strong demand for loans at 8 per cent whereas rates on time deposits are only 2 - 2-1/2 per cent with the standard service charges in effect and with rather substantial earnings from other sources (insurance, auctions, occasional land sales, etc.) some banks are making money in this section of the State that would be running behind if they were located in the southern half. Both banks in one town of a 1,000 population claim to be making "excellent profits" even though their combined deposits are only three-quarters of a million! Their loans, however, are a half million, mostly at 8 per cent. In one county, all banks (except one national bank) charge \$1 semi-annually on all active checking accounts.

KANSAS CITY

During August visits were made to fifty-six Nebraska banks. A special effort was made to call on banks that might be interested in membership. Virtually all of these state banks were found to be friendly to the Federal Reserve System and a surprising number showed interest in becoming members. But for many of these institutions membership is a long way off. A great deal of house-cleaning would be necessary in many cases and existing capital structure would eliminate others. One bank was found where present reserve requirements would make membership out of the question.

While there are exceptions, many of these Nebraska banks have suffered a loss of deposits in the last year. That state has not had a normal corn crop since 1933 and this long period of adverse farm conditions is reflected in bank deposits and sentiment. These adverse conditions, coupled with increased competition of Government agencies of various kinds, are resulting in a considerable number of bank consolidations and quite a little talk of liquidation in individual cases.

A good many bankers in August were wondering whether they should not dispose of some of their Government securities at the very attractive prices then obtaining. One Nebraska bank was found with substantial investments yet holding no Federal Government securities.

Increasingly Nebraska farmers are cooperating with the agricultural program and most bankers appear to be advising farmers to do this. While there is difference of opinion regarding the wisdom and soundness of the agricultural program, bankers and farmers more and more are taking the position that the individual farmer should do what seems advantageous to him at the moment and let the future take care of itself.

In Nebraska a great deal of experimentation appears to be going on with different varieties of hybrid corn. In one community it is said that over twenty varieties had been tested in an attempt to get the one most suitable to that locality. Bankers say that farmers by planting hybrid corn can comply with the farm program and raise more corn on the smaller acreage than they formerly did with no acreage restrictions.

Visits to Kansas banks in August found many bankers and farmers expecting war in Europe and greatly interested in what would happen to farm prices in that event. It was generally expected that the price of wheat would rise. The opinion was expressed that even though a war should cause wheat prices to go above Government loan values many farmers would nevertheless leave their wheat under seal while making up their minds about selling.

DALLAS

South Texas.

Lean operating results are widely mentioned. Acceptable local credit outlets have all but vanished. This, along with low yields on investment securities, has kept income at low levels, barely sufficient to permit reduced or nominal dividend rates.

Fear over the future of bond prices was widely expressed. Reluctance to accept bond profits was generally voiced on account of the necessity for current income and the difficulty of making replacements. The limit of Savings bonds is being acquired by a wide list of banks in this section on account of the comparatively good return and elimination of market risk.

Only isolated complaints were registered against competition of Government lending agencies. On the whole, the bankers visited feel that the Government agencies are supplementary in that they supply credit to non-banking risks.

One nonmember bank, having deposits in excess of \$1,000,000, expressed a lively interest in membership, but stated that it desired to make certain improvements in its assets before filing an application. Another

nonmember, which pursues a rather aggressive loaning policy, declared that the System's present high reserve requirements make membership unattractive from its own point of view. Still another explained that membership had no attractions because its city correspondents duplicated the services offered by the Federal Reserve.

SAN FRANCISCO

Santa Barbara County, California.

Business in Santa Barbara is described as better than it has been for some time, owing to the fact that the tourist trade has picked up very materially in volume. The reason assigned for this is the European situation and the San Francisco Fair.

No particular interest in the FHA has ever been evidenced in Santa Barbara, in spite of quite extensive advertising by the banks. There is a feeling that there is too much delay in closing loans through the FHA, and this has worked to the benefit of the building and loan associations which finance practically all residence building there is.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

August - 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	67	12	79	<u>1/</u>	<u>1/</u>	1	<u>2/</u>
New York	149	56	205	2	195	--	--
Philadelphia	84	24	108	--	--	--	--
Cleveland	27	2	29	<u>1/</u>	<u>1/</u>	<u>1/</u>	<u>1/</u>
Richmond	83	44	127	--	--	--	--
Atlanta	68	47	115	1	125	<u>2/</u> 5	470
Chicago	22	13	35	--	--	1	100
St. Louis	26	70	96	3	330	1	85
Minneapolis	96	140	236	4	342	1	65
Kansas City	24	41	65	--	--	--	--
Dallas	12	10	22	--	--	--	--
San Francisco	10	7	17	10	1,228	<u>3/</u> 5	170

1/ Not reported.
2/ One broadcast
3/ Two broadcasts.