

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

R-548

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 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 September 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



sold a portion of their Government bond holdings, and in most instances the policy of the Federal Reserve System as indicated by its recent buying of bonds was commented upon favorably as a means of enabling the banks to adjust their Government bond accounts in an orderly manner. At a number of banks inquiries were made as to the future policy of the System in relation to the Government bond market and as to probable rates to be paid by the Treasury on future borrowings.

#### NEW YORK

##### Bronx, Kings, Queens, and Richmond Counties, New York

The majority of banks continue to hold substantial blocks of United States Government securities and many are faced with a net depreciation in their portfolios as a result of the decline in prices of United States Governments and other high grade bonds subsequent to the outbreak of the European War. Several bankers remarked that the decline in market values of high grade securities is having a bad psychological effect, and that institutions with funds to invest are hesitant to purchase long-term high grade issues at present prices as they believe purchases can be made at still lower levels if there is to be a prolongation of the war. Two banks which sold large amounts of long-term United States Government bonds when prices first began to decrease now hold substantial amounts of cash (amounting to nearly 40 per cent of their deposit liabilities), and are planning to reinvest in short-term United States Government securities as they believe these will be less likely to depreciate. A number of bankers state that, although there has been a sizable increase in the market values of their second grade railroad and other substandard bonds, they are hesitant to sell at this time as they expect higher prices may prevail.

Although this is normally the season when bank loans to commerce and industry usually expand, the majority of bankers report a light demand for credit and indicate that their loan portfolios continue to decrease. The officers of several smaller banks state that it is becoming more difficult to meet the competition of the larger banks for installment and life insurance loans.

##### Essex County, New Jersey

The security accounts of the commercial banks total approximately \$201,000,000 and continue to show a high proportion of United States Government issues, direct or fully guaranteed, amounting to about \$125,000,000, or 62 per cent of total holdings. During the

past few months, there has been some shifting around of United States Government issues in order to take profits or prevent further losses, and in some cases to shorten maturities. A number of bankers have preferred to hold their United States Governments for income despite the recent downward trend in market values, but are concerned that the supervisory authorities may require writedowns if this shrinkage in values continues. Many investment accounts which previously showed some appreciation now have depreciation because of the current market prices of United States Government issues. Municipal obligations form an important part of the investments of the banks in Essex County and many are constantly adding issues of this type to their security portfolios. Few bankers care to increase their holdings of corporate issues at this time, most of them apparently preferring to continue liquidation of such investments as rapidly as favorable opportunities are presented. The reported improvement in railroad activities which is reflected in somewhat higher market values of railroad securities, is raising the hopes of many bankers that they may, in the near future, be able to dispose of such bonds at around present book values, and thereby reduce some of their previously estimated losses.

#### PHILADELPHIA

##### South Central Pennsylvania

The area covered by this report depends upon diversified manufacturing and agricultural activities. Much of this section escaped the extreme dry weather experienced elsewhere this year and as a result of favorable growing conditions crops yielded heavily. Prices were disappointing, however, and it was said that the farmers did not make money this year. Milk prices are considered satisfactory in all but York County, where the complaint was made that sanitary and other requirements force expenditures upon dairymen beyond their ability to recover under present prices.

Factory activity at all but a few establishments is considerably higher than a year ago. The increased business of some of the larger concerns results from Government orders, principally for war materials, and several bankers express concern about what will happen after these orders are filled. However, the firms chiefly concerned have been developing new products and no doubt will be able to maintain operations at a fair level. Some of the concerns which are now experiencing a decline in activity expect improvement within the next few months.

Banking resources are \$2,797,000 greater than a year ago, an increase of 2-1/4 per cent. A majority of the bankers interviewed

reported an increased demand for credit. Various means of credit extension, such as FHA, personal, automobile, equipment, and cattle loans, are being used and in most cases are proving satisfactory, only one banker reporting otherwise.

The great majority of the bankers reported net depreciation in investment accounts but the amount was of serious moment in but a few cases. Many of the officers interviewed stated that the recent decline in prices wiped out appreciation which accounted for the present small depreciation.

Real estate conditions are fairly satisfactory, although the market is quiet. Houses rent readily at satisfactory figures and in those communities where there is demand for new homes there is considerable new construction under way.

#### CLEVELAND

The active campaign for membership on the part of Ohio State banks has continued, and during the month of September four banks having total resources of \$3,459,524 were admitted to membership. Contacts are now being established with banks in Pennsylvania and Kentucky looking to round-table discussions with boards of directors or committees thereof to discuss and consider membership in the System.

On balance, member banks, particularly those in the smaller centers, have sold Government securities. In a few instances this has been occasioned by the demand for loans. In a majority of instances it appears to reflect the view of the bankers that better buying opportunities will present themselves at some future time. Many banks have commented favorably upon the action of the Federal Reserve System in supporting the Government bond market, and are appreciative of the offer on the part of Reserve banks to accept as collateral security Government obligations at par.

In one instance a substantial block of Governments was sold in a community where individuals ordinarily favor Government bonds as investments, and the bank feels it necessary to increase its cash position now in anticipation of individual withdrawals should the Government bond market reach lower levels. At this particular bank the loan account is also reported to be the highest in ten years.

In the southwestern portion of the State of Ohio a strong demand for loans has developed. This is true both of agricultural and industrial regions. A number of banks report loans at all time peaks. Some farmers are borrowing to buy livestock in anticipation of higher livestock prices; other farmers are reported as borrowing to carry grain in anticipation of a more favorable market. One bank reports earning assets practically equal to deposits.

### RICHMOND

#### Southwestern Virginia

Many banks reported an increase in deposits and a few reported deposits at their peak. Most banks are paying 2-1/2 per cent on deposits, but the rate has been reduced to 2 per cent in those communities where the bankers have been able to agree. Moreover, the major portion of deposits are time deposits. There is, therefore, a general tendency to charge 6 per cent on loans, though it is apparent that banks make some loans at 4 or 4-1/2 per cent. So far as obtainable banks prefer good local loans to business concerns, but where these are not available there is a tendency to go in for real estate loans, including FHA insured loans. Some banks report losses of business to Federal lending agencies because of the lower rates of interest charged by them.

Banks have not been much disturbed about the effects of the war upon the prices of Treasury issues and they seem quite unconcerned about the disappearance of appreciation on their bonds. However, they are much interested in the question of the future trend of bond prices, since many of them want to buy Treasury issues when it is believed that the time is ripe. There seems to be some feeling that Treasury bonds are "a good buy" at par, but there is a preference for the shorter maturities.

#### Central West Virginia

As for banking conditions, most banks report an increase in deposits and also in loans. Here, as elsewhere in West Virginia, the prevailing rate on loans is 6 per cent, but the rate on time deposits is somewhat lower, being only 2 per cent. A few banks have FHA loans, but the bulk of all loans are local loans to tradesmen and farmers, with an increasing volume of personal income loans, especially to miners. In some communities mining concerns supply housing for their workers and there is no demand for real estate loans. But, in others, banks have been able to place substantial amounts in loans of this type.

In certain communities substantial amounts have been deposited with the Postal Savings System and United States Savings bonds have been popular. Even so, most banks have a plethora of idle funds which they are quite unwilling to lend at a rate lower than 6 per cent. These idle funds flow into investments to some extent, the preference being for Treasury bonds, since they are regarded as highly liquid. It is evident that most banks still prefer to be highly liquid and desire to avoid any possible situation which might compel them to borrow or rediscount. The better informed banks look with distinct approval upon the service of the Federal Open Market Committee following the outbreak of war.

#### South Central West Virginia

As for the investment position of banks, in a few instances nothing but Treasury issues are held and in practically all cases these predominate. It may be said that nearly all bankers have been quite undisturbed by recent declines in the prices of Treasury issues, since they maintain that these bonds have been purchased for income rather than for profit. A few bankers feel that prices of Treasury issues will recover somewhat, but that they will not regain their former high levels. It is apparent that bankers generally hope for higher interest rates and a few have restricted loans with the hope of benefiting by the anticipated increase.

#### ATLANTA

#### Florida

Visits were made to 12 nonmember banks and 17 member banks in Florida. Most of the banks visited have experienced more activity this summer than in the last two or three summers. In many cases increases in loans and deposits were reported, as compared with the corresponding dates last year. General business conditions in the territory visited were reported good.

Bankers in the West Coast resort towns and bankers at Daytona Beach and St. Augustine are hopeful for a good tourist season. What effect world conditions will have on travel in this country is a matter of conjecture. Opinion was expressed, however, that some increase might be expected in the number of tourists since European travel has practically ceased. The consensus is that war conditions will have a decided bearing on the volume of tourist business in Florida this winter.

Our representative reports that many of the banks visited use the facilities of their city correspondents for check clearing purposes and that they will continue to do so in order to avoid the keeping of records covering items of deferred availability. The bankers feel that where they can include all items in one letter to a city correspondent for sorting and collecting it is to their advantage to do so.

The questions foremost in the minds of the bankers interviewed seemed to be what the Government bond market will do and how to lend money with a feeling of security. In this connection our representative called attention to the fact that the Federal Reserve Bank is prepared to make advances on Government securities at par, as announced recently in our circular letters.

Several bankers made mention of the noncash collection service of the Federal Reserve Bank and spoke of recent questionnaires which had been received relative to a proposal made by certain city banks to the effect that the Federal Reserve Bank of Atlanta and its branches discontinue the handling of noncash items payable at Atlanta and our branch cities. The member banks at Sarasota and Winter Haven seem particularly interested in this service and would dislike any change since they forward numerous fruit and vegetable drafts to Federal Reserve banks and branches over a wide territory for collection at par. The bankers at these points contend that any change in our practice of handling noncash items would necessitate the opening of correspondent accounts in Federal Reserve cities or the payment of collection charges and would be costly to their banks.

### Louisiana

The executive officers of the three nonmember banks located in Plaquemine and Donaldsonville are somewhat perturbed over the recent decline in price of high grade bonds but, because of the extremely liquid condition of their institutions, do not anticipate that they will be forced to borrow funds. The officers of the three banks spoke in complimentary terms of the action of the Reserve System in making it possible for both member and nonmember banks to avail themselves of advances on direct obligations of the United States at par and at a low rate of interest.

### CHICAGO

Very little change is shown in the loan portfolios of the country banks, although the adjustments that have been made in interest paid on deposits and the continuous readjustment of service charges are enabling the banks generally to operate on a profitable basis. Many of



the smaller banks continue to rely upon F.H.A. loans as an outlet for their funds. Of the bankers visited during the month, only one indicated that it might be necessary for his bank to borrow from the Federal Reserve bank.

At the various group meetings, the topic of Wages and Hours seems to have attracted more attention than any other one subject. Compliance with this act appears to be increasingly irksome to the small banks.

The sentiment of banks toward Government bonds is favorable. While they have shown some concern over the trend of prices, generally speaking they do not seem to be particularly disturbed and practically without exception banks, both small and large, have expressed themselves as being pleased with the manner in which the Open Market Committee has handled the Government bond situation. Good short time municipals still sell on a very favorable basis; for example, Milwaukee County, Wisconsin, has recently awarded a new issue of \$3,700,000 Poor Relief obligations due April 1, 1940, on a bid of 100.0062 for an interest rate of .50 per cent.

We are advised by one of the banks in Detroit that some of the financial minds there are concerned with the present wave of prosperity, as it may affect the activity of the finance companies which are furnishing consumers' credit in a large way. They feel that these companies may use readily available cheap money and encourage abnormal credit buying on the part of the workers of all classes. Those concerned think that the big banks and even the Federal Reserve banks should sound a warning note and should perhaps even condition their loans to finance companies by a provision that those companies would reduce the terms of their loans and possibly increase the cost of money for the purpose of discouraging over-expansion of consumers' credit. It is understood that one of the larger automobile companies has expressed keen interest in this subject and will probably make its views known in some manner before long.

#### ST. LOUIS

Interviews with bankers reflect somewhat spotty conditions, but on the whole a fair degree of prosperity. Approval was expressed by a number of bankers of the Federal Reserve Bank announcement that it will make advances at par on U. S. Government obligations. This action has served to relieve anxiety of certain country banks whose investment portfolios contain large holdings of long-term Government securities.

There were a number of complaints of small profit margins, more, in fact, than small volume. One bank reported uninvested funds

equal to 65 per cent of deposits. Liquidation was reported in satisfactory volume, including paper classed as slow. Five to six per cent, mainly the latter figure, is charged on customer loans. On time deposits 2 per cent to the maximum is allowed. Some banks are not taking interest bearing deposits.

The executive officer of a Missouri State member, which entered the System this spring, seemed pleased with membership and said relations were entirely satisfactory. He stated the large reserves required made it difficult to carry adequate balances with correspondents but he nevertheless appreciated the benefits of membership.

The vice president of an Illinois National bank, who is a booster for the System, remarked that reserve requirements were a bit high. He and officers of several other member and nonmember banks in Illinois, Indiana, and Kentucky, stated that the adoption by our bank of the 1 per cent rate on advances to banks, secured by U. S. Government obligations, would go a long way toward increasing their confidence in long-term Government bonds. Some of the banks visited are making additional purchases of Governments with the thought in mind that they can be used to advantage as collateral if necessary.

### MINNEAPOLIS

#### South Central Minnesota

The forty-two banks visited are all located within an area forty miles wide and forty-five miles long. Many bankers complain that there is an over-population of banks in this community. Distances between banking points are from three to fifteen miles.

Well established banks with sufficient volume of business report adequate to excellent earnings. There are a few banks in this locality, however, which are severely handicapped because of extremely small volume of loans and deposits, and because they are located in highly competitive territory they complain of their inability to make adequate earnings.

The demand for local loans is spotted. In a few instances a heavy demand was reported, although in most instances the demand was reported as light.

Income from service charges has become an important item from earnings standpoint in many of the banks, while in most of the smaller outlying banks this source of revenue has not been developed

at all. The smaller banks are fearful that by assessing such charges their customers will gradually move their business to the larger trading centers.

Although all of the officers of nonmember banks who were approached on the subject stated that exchange charges could be eliminated and service charges substituted, they preferred to cling to the income from exchange charges because such charges are easy to collect.

As a general rule, the banks in this territory are opening later and closing earlier in order to comply with the Wages and Hours Act.

### East Central South Dakota

The two principal topics in which most of the bankers are interested at this time are the war situation and wheat loans which many of the banks have been making in volume. Bankers generally are very much interested in the possible effect of war on bond prices as well as the attitude of the Treasury Department and the Federal Reserve System in supporting the market on government issues.

Banks are competing to some extent for the privilege of handling wheat loans. In some cases, smaller banks are turning over to their correspondent or affiliated banks in the larger centers the wheat loans made at their offices. In virtually all of these instances, the banks originally handling the loans receive .4 of 1 per cent for their work, and the remainder of the 2-1/2 per cent allowed the banks by the Commodity Credit Corporation on such loans goes to the banks carrying the loans until paid.

Deposits quite generally are showing an increase at this season of the year, and funds resulting from wheat loans are given in a number of instances as being the reason for the increase. There are but very few cases where banks do not have sufficient funds to meet the local demand for money. Many of the bankers reported an improvement in their earnings. Chattel mortgage loans are usually made on a very conservative basis, one bank having adopted the practice of lending not to exceed \$20 on a cow or \$3 on a sheep. Most banks receive 8 per cent on chattel mortgage loans, although there are a few instances where the return is only 7 per cent.

Some of the bankers recently had seen articles in newspapers stating that the Federal Reserve banks would lend both to member and nonmember banks at par on Government securities regardless of market value, and they felt this was a wise and timely move on the part of the Federal Reserve System.

KANSAS CITY

In September most of the visits made by this bank were concentrated in Nebraska and Kansas. Early in the month the war was the principal topic of conversation, although in a few weeks attention was turned to other matters. Banks were interested especially in what the war would do to the price of their Government securities and how it will affect grain and livestock prices.

Everyone was remarkably calm. A few bankers were found who had sold Government securities in the summer when prices were near their peak and they expressed the wish that they had sold more. Some also were found who had been doing some selling since the outbreak of war and a number of these individuals expressed the wish they had not sold. A few banks, in order to employ idle funds, would like to buy more Government securities but are afraid to do so. There seems to be a tendency to ignore paper profits and take an investment position in regard to Government security holdings. A few banks were found in drouth stricken sections of Nebraska where it was said either bonds must be sold or loans on them secured. Virtually without exception, the opinion was expressed that the Federal Reserve System had been wise and skillful in its support of the Government bond market. Also without exception, appreciation was expressed of the offer of this bank to lend at par and at a low rate of interest on Government securities.

Next to the war and its probable effect on bond, grain, and livestock prices, the most important item of interest to bankers is the continuation of the unprecedented fall drouth. In many parts of the District the highest temperatures of the year were registered in the early part of September and the almost complete lack of rainfall on top of the summer shortage created a highly critical condition. The Hard Winter Wheat Belt lies almost wholly within the boundaries of this Federal Reserve District and in almost every State there is no moisture to germinate the seed. Some farmers have planted their wheat in the dust and there are reports that in some sections the sown grain has been injured by insects.

A striking example of how banking has changed in the last decade or so was found in the case of a bank with \$54,000 of deposits, which has an income of \$900 from exchange charges and \$1,100 from service charges.

City banks report that their loans are beginning to show some evidence of war influence. Loans for handling grain have increased sharply in individual cases and it is said that wholesalers, especially in food lines, are borrowing increased funds to buy merchandise.

DALLASEast Texas

The area visited includes the great East Texas oil field, the largest in the nation, containing 27,000 producing wells, and extending through four counties of East Texas.

The visited bankers reported that notwithstanding the slowing down of oil field activities, business and agricultural conditions in this section of Texas are quite satisfactory. The cotton crop, which has been somewhat curtailed this year by drought, is being sold by the farmers as fast as it is ginned, and, strange to say, the prevailing price of about nine cents a pound is considered amply sufficient to enable the producers to liquidate their seasonal borrowings and other current debts.

Bankers throughout this area are practically unanimous in opposing a Government loan on cotton this year. They hope the Government will not make a loan on the 1939 crop, because, they say, the present price is adequate to move it into consumption channels without detriment to the producers' interest, and they fear that a continuance of Government loans will tend to destroy what little world market the American cotton crop now has, by holding the crop out of world consumption channels.

Unanimous opposition to the Patman and Brown Bills was voiced by the visited bankers. Several banks complained of the present assessment rates charged by the FDIC, saying that in their opinion the Corporation has accumulated a sufficient reserve to take care of normal future losses and that Congress could well afford to reduce the assessment rate and thus afford some relief to the banks that are hard-pressed to make expenses under present conditions.

Widespread interest in the Government bond market is in evidence among the banks of East Texas. There has been comparatively little selling since the outbreak of war. A few banks had sold off some of their Governments during the summer for profit-taking purposes, but the general tendency is to hold present portfolios intact. Several of the banks interviewed in this region declared that they intend to make substantial purchases of certain issues if and when they reach par or near-par levels. The indications are that this attitude may be more or less universal throughout the State, and if so it would seem probable that any further declines in the Government bond market will be followed by a general buying movement among banks, particularly those whose outlet for loans is still restricted and those whose holdings of Governments have been depleted by earlier profit-taking operations.

SAN FRANCISCOWashington

While the bankers visited in the Yakima Valley during the latter part of August and the first part of September were looking forward to a satisfactory marketing of this year's apple crop, war conditions in Europe have changed the picture completely. In normal years approximately 25 per cent of apples grown in the Northwest are exported to European and Scandinavian markets, of which about 75 per cent are exported to nations now engaged in war. This market has been completely cut off, with the result that the growers are now facing a serious marketing problem. We understand that the Federal Surplus Commodities Corporation, within the past two weeks, has placed apples on the surplus commodity list and is now assisting in moving the excess stocks.

Crops of other agricultural products, such as hay, potatoes, and sugar beets, were satisfactory this year and brought good prices.

Bankers reported good demand for loans, and, with the exception of conditions as noted above, business was considered very satisfactory.

Banks located in the lumber and logging sections which were visited during the month were very optimistic over the increased demands for logs and lumber products. The lumber mills report very satisfactory conditions, and in the most part are refusing to book orders for longer than sixty days in advance. Prices for lumber products have been advancing, and some mills have increased their output by an addition of one or two shifts.

In other sections agricultural conditions are reported to be very satisfactory, particularly in the dairying, poultry raising, and seed growing industries.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

September - 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	23	--	23	1	<u>1/</u>	<u>1/</u>	<u>1/</u>
New York	77	27	104	10	2,080	1	85
Philadelphia	45	16	61	4	3,075	--	--
Cleveland	99	30	129	11	2,297	2	90
Richmond	66	31	97	4	675	2	350
Atlanta	21	15	36	1	<u>1/</u>	--	--
Chicago	65	32	97	15	5,659	1	75
St. Louis	69	88	157	15	<u>2/</u> 1,783	2	<u>2/</u> 66
Minneapolis	57	103	160	7	3,720	--	--
Kansas City	20	36	56	7	3,268	1	20
Dallas	17	1	18	3	2,375	1	200
San Francisco	55	16	71	11	3,208	--	--

1/ Not reported.

2/ Attendance for one not reported.