

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

R-582

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



December 20, 1939.

Dear Sir:

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

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea". The signature is fluid and cursive, with a large initial "L" and a long, sweeping underline.

L. P. Bethea,  
Assistant Secretary.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-582-a  
December 20, 1939  
Not for publication

EXCERPTS FROM BANK RELATIONS REPORTS FOR THE  
MONTH OF NOVEMBER 1939

BOSTON

Thirty-two member banks and one nonmember bank were visited during the month of November. While the section visited is the national center of the brass industry, manufacturing on the whole is widely diversified.

In practically all lines, most manufacturing plants were operating more than one shift. Pay rolls had increased substantially over a twelve-months period and the greater part of the increase was said to have taken place within the previous forty-five days. Plant operations in all lines were reported to be confined largely to domestic orders -- no substantial amount of foreign business was reported anywhere.

Low investment yields, lack of strong demand for commercial loans and increasing reserves were often referred to and at one or two banks there was some discussion of the narrowing effect upon the capital ratio of increasing deposits. Apparently the purpose of these discussions was to ascertain the probable attitude of Federal Reserve and other authorities, should the ratio be forced below 10 to 1 at a time when a bank is in a strong liquid position.

No banker visited was critical in any way of the policies or operations of the Federal Reserve System or of this bank.

NEW YORK

During the month of November, the officers and representatives visited 208 banks of which 151 are member and 57 nonmember institutions.

Clinton, Essex, and Franklin Counties, New York

An increased demand for loans is reported by most of the banks but they are experiencing difficulty in maintaining loan totals due to the rapidity of repayments.

The summer resort business and farming are the principal sources of income in these counties. The volume of vacationists'

trade during the past summer throughout the Adirondack region and along Lake Champlain was the most satisfactory in several years, and in one instance it was reported as the best in ten years.

Dairying is of chief importance in the northern parts of Clinton and Franklin counties.

Industrial activity throughout the territory has increased substantially during the last several months.

#### Erie and Niagara Counties (Buffalo Branch Territory), New York

The demand for loans continues light, and total loans of commercial banks, which amount to \$140,049,000, are somewhat lower than at the first of the year. Quite a number of institutions have bolstered their loan accounts through Federal Housing Administration mortgage lending, either by originating or purchasing such mortgages. A number of bankers mentioned that, in view of the  $4\frac{1}{2}$  per cent rate, these Federal Housing Administration mortgages are less attractive and for this reason they do not intend to add to their present holdings. Several bank officers commented on the severity of examining authorities, and one nonmember banker in particular said that he felt the examiners were unduly critical of certain lines, which had precluded him from granting credit to concerns which he felt were desirable risks.

The subject of membership was brought up by the president of one nonmember bank, who mentioned that he is subject to so much regulation and has so many reports to make at present that he is unwilling to subject himself to further regulations and restrictions. The executive officer of one member bank said he felt Federal should give immediate credit on all checks, and, if necessary, raise reserve requirements to offset the float we would thereby be required to carry. This banker stated that he is receiving such service from his correspondent bank, and that the time thus saved through eliminating the sorting of checks and the running of a deferred account is a helpful factor in keeping within the present 42-hour week.

Business conditions in the Buffalo area reflect a very encouraging improvement.

Conditions throughout the agricultural areas of these two counties were reported to be moderately good in some sections and rather poor in others.

#### Westchester County, New York

General business conditions in this area are said to have improved considerably in the last two months, largely as a result of the increased activity in the industrial plants.

Middlesex and Union Counties, New Jersey

A number of banks have already taken advantage of the increase in market prices of lower grade securities and have liquidated sizable blocks of railroad and other substandard bonds, and are awaiting an opportunity to make further sales if market prices continue to advance. New purchases are still confined largely to United States Government securities and to some extent to municipal, State, and county obligations, the short and medium term maturities being most favored.

The officers of several banks remarked that although their institutions have substantial amounts of idle funds, they have hesitated to purchase more Government bonds. They contend that the yield at present prices is satisfactory as long as the interest paid on savings accounts continues at 1 per cent, but point out that if there should be a general firming up of money rates so that banks have to increase their interest payments, it would be hard to obtain earnings sufficient to pay any higher rate if Government bonds were purchased at present levels.

Some banks have recently installed the "Vee Bee System" of personal loans which is a plan being sponsored by the American Surety Company. Under this method employed people may obtain loans on their signatures without having to obtain endorsers or co-makers. Loans are made in amounts of \$75 to \$1,000 with repayments over as long a period as twelve months. The plan permits the borrower to "rent" collateral in the form of a surety bond which procedure eliminates the necessity for the borrower to suffer delay and the embarrassment of having to ask friends to become co-signers. The cost of the surety bond is \$5 per \$100 of loan for as long as twelve months, in addition to which the banks charge a rate of 5 or 6 per cent on a discount basis. The banks remit every month to the surety company \$2 of the \$5 collected for each \$100 of loans granted during that period, and the remaining \$3 is set up in a Vee Bee System account until the reserve fund so established and maintained is equivalent to 10 per cent of the aggregate of such loans outstanding, and thereafter the full amount of 5 per cent is paid to the surety company.

Passaic County, New Jersey

The subject of membership in the Federal Reserve System appears to be receiving little attention by nonmember bankers in this county at the present time.

Bankers, both member and nonmember, appear friendly to the Federal Reserve System and no complaint was made regarding the services rendered by the Federal Reserve Bank.

PHILADELPHIA

During November representatives of this Bank visited 67 member and 29 nonmember banks.

Clinton County, Pennsylvania

One officer stated that he was desirous of increasing his bank's holdings of Government issues, but will not buy at present levels. He expects to be able to purchase such issues below par in the not too distant future, at which time he will convert some of the bank's corporate holdings to Governments.

All banks in the county pay 2 per cent on time and savings deposits, but three banks, including the two largest, are reducing the rate to 1-1/2 per cent, as of December 1st, and no doubt this will cause similar action at some of the other institutions.

McKean County, Pennsylvania

The factories are all working full time, with several of those employing female labor reporting a shortage of workers.

There is a good demand for credit at banks located in the center of the oil fields but at all other institutions the demand is poor. Bankers at those institutions active in extending FHA credit report a good experience with these loans. The 6 per cent loaning rate prevails on all but FHA loans.

Ocean County, New Jersey

Credit demand, while light, has been satisfactory. The large majority of extensions are for small amounts and several banks in this county have utilized the provisions of Titles I and II of the National Housing Act to expand loan totals. There has been considerable new construction in many seashore communities and most of it is being financed in this manner.

The problem for the majority of the banks in this county is bond depreciation. While there has been some improvement generally since last March, railroad issues continue to cause most of the depreciation. As a result of their experience with corporation issues, several bankers said they were desirous of disposing of those issues and reinvesting the funds in Government holdings as rapidly as possible with a minimum amount of loss.

All banks in the county pay 1 per cent on savings accounts, which is the maximum rate allowed by the Commissioner of Banking and Insurance.

Mercer County, New Jersey

This is an important industrial county and is the site of plants of many nationally known concerns. Industrial activity has increased considerably since last winter and is now at a high level. In commenting on industrial conditions a banker of Trenton, the State capital and chief city of the county, stated that some manufacturers had advised him that cancellations of orders were becoming frequent and bid fair to force a curtailment of the present rate of activity. However, other bankers in that city stated that to their knowledge such a condition did not exist with their customers. One officer said a representative of a large steel company had visited the city recently to ascertain whether steel orders received from local concerns were for current needs or placed in anticipation of higher prices. While this officer seemed to feel that this indicated that steel companies were trying to discourage forward buying or excess inventories, it quite obviously could be considered to mean that that company is trying to prevent possible cancellations.

Bankers are much disturbed by present low earnings. With a lessened volume of loans and the experience of losses in the bond market, bankers feel forced into the purchase of Government issues and, while there were no doubts expressed as to payment at maturity, considerable comment was made relative to present high prices and the possibility of a severe decline in the future. While it is known that the reserve banks at present will lend par on Governments, a majority of the bankers do not appear to believe that this policy will, or should, be continued in the event of a general decline to sub-par levels.

Summary

In commenting upon the services several member bankers reported that they preferred to collect checks through their correspondent banks because faster collection was obtained on a large number of items than if the checks were deposited in the reserve bank. This saving of time was said to be effected by the correspondent bank through a greater use of air mail and the sending of items in other districts direct to the town in which the drawee banks are located.

CLEVELAND

During the month of November 199 banks were visited, of which 147 are members and 52 are nonmembers.

The sharp increase of industrial activity in this territory, particularly in steel, coal mining, and glass operations, has resulted

in a considerable reduction in unemployment and in increase in pay rolls. This is especially true of western Pennsylvania. Despite these facts, however, merchants are complaining that they are not getting the increased business which the increase in pay rolls might logically be expected to bring about. A few banks have reported that their time deposit totals are showing increases.

There appears to be a revival of interest in FHA mortgages. Banks which for long periods of time have had substantial balances with correspondents and which do not consider favorably the opening of personal or chattel loan departments are purchasing FHA mortgage loans.

Some banks in Kentucky are feeling the competition of insurance companies which are making loans on the security of real estate at four per cent. The going rate on loans of that type in Kentucky ranges from six per cent upward and bankers are extremely reluctant to reduce loan rates.

Ohio bankers who entered the small installment loan field four years ago met for the first time last week in Columbus to discuss consumer credit. It was found that more than 250 of Ohio's 700 banks have installed small loan departments since they received State permission by statute in 1935. Some 50 more are considering entering the field. Interest rates on such loans are 5 to 6 per cent and losses have been less than one per cent.

#### RICHMOND

During the month of November 59 banks were visited, of which 39 were member banks and 20 nonmember banks.

#### Nottoway and Spotsylvania Counties, Virginia

Banks in Nottoway County, like most others in this region, report increases in deposits much in excess of the increases in loans. Most banks pay 2-1/2 per cent on time deposits, although a few pay that rate only on certificates of deposits with a rate of 2 per cent on regular savings deposits. Where a rate of 2-1/2 per cent is paid, it is contended that a lower rate is impossible so long as competing banks pay 2-1/2 per cent. As a rule, 6 per cent is the lending rate and it follows that banks with time deposits growing at a greater rate than loans are subjected to pressure on their earnings.

There is complaint because of loans made by Federal agencies, for occasionally it comes to the bankers' attention that bankable loans

are lost to these agencies. While some banks are content to stop with mere complaint, others are more aggressive in obtaining business. It does not seem to occur to country bankers that these Federal lending agencies are maintained because of the demand for cheaper credit.

These borrowers have no ill-will towards the banks, but they seem quite unwilling to pay higher rates of interest while lower rates are available. There is a considerable difference of opinion as to lending rates, for bankers seem to feel that the traditional rate of 6 per cent should somehow be made to prevail, while borrowers do not. The hiatus between the bank lending rate and borrowers' opinion makes room for the Federal agencies.

#### ATLANTA

During the month of November, 1939, 104 banks were visited, of which 68 were members and 36 nonmembers.

#### Alabama

Some of the bankers are making special efforts to point out to the farmers the advantages of hog raising, dairying, and cattle feeding, and the number of points at which hog and cattle auctions are held is increasing.

In industrial towns, such as Anniston, Alexander City and Talladega, wherein are located numerous textile mills, soil pipe plants, chemical plants and lumber mills, business is reported as being very satisfactory. Most of these industries are operating on a full-time basis and their well-sustained pay rolls contribute materially to the trade activity of the communities.

#### Georgia

Increasing interest is being shown in several communities in the raising of livestock.

#### Louisiana

The officers of the four banks visited stated that they have had a reasonably good demand for loans during the current year and that all legitimate requests are being granted. Without exception, it is anticipated that this year's earnings will equal, or exceed, those for 1938.



CHICAGO

During the month of November 15 banks were visited, of which 5 are member banks and 10 are nonmember banks.

Very little change is reported in the demand for credit in this district. Some of the banks are expecting increases in deposits and liquidation of loans as the old corn loans are paid off. Many banks are evidencing their desire to handle the 1939 corn loans regardless of the lower return. A number of the city banks are canvassing their smaller correspondent banks and offering to take excess corn loans, allowing the originating bank 1/4 to 1/2 of one per cent.

The question of the amount of interest to be paid on time deposits continues to be a matter of considerable interest. The large down-town banks in Chicago have recently reduced the rate from 1-1/2 to 1-1/4 per cent.

ST. LOUIS

During the month officers and field representatives visited 193 banks, of which 85 are member and 108 nonmember banks.

The officers of one bank are seriously considering closing one afternoon weekly, and employing that time to visit farmer customers with the view of inducing those who patronize Production Credit Corporation to use the facilities of the home bank. These officers think their loan account can be substantially increased through these contacts. Banks where livestock is extensively raised and fattened have plentiful supplies of paper from feeders. This fall certain banks have found it necessary to place part of this collateral with city correspondents.

The president of a national bank mentioned the matter of call reports and expressed pungent views relative to these and other reports. He indicated that nonmember banks in Indiana have been required to publish only two reports during the period when his bank published four. This banker feels strongly that there is need for greater uniformity in rules and regulations of the various supervising authorities.

Upon entering a Kentucky national bank, a representative first met the executive vice president, who immediately began to berate him for alleged shortcomings of the System in general. He stated

that, even though he was a stockholder, in his opinion, no suggestion of his would be beneficial as he had absolutely no voice in the management or the policy of the System because the Reserve banks were now politically dominated. The bank's president, however, seems to have a much more friendly attitude toward the System. The representative endeavored to assure both officers that every effort was being made to improve the services and relations between the Federal Reserve bank and its member banks.

The vice president of a Mississippi nonmember was rather outspoken in criticizing the economic theory of paying our way out of the depression. He felt that the moral fibre of the people had been lowered and that many borrowers now make little effort to pay their just debts. Government interference in business, in the opinion of the president of another Mississippi nonmember, is more of a hindrance than a help and he feels that if banks and business were let alone, our economic troubles would adjust themselves.

#### MINNEAPOLIS

During the month of November 84 banks were visited, of which 43 were members and 41 nonmembers.

This fall a number of the banks have been active in taking wheat loans and many are taking them up to the limit of their reserves. One member bank contemplates borrowing from this bank on a bills payable basis secured by Governments in order to expand and carry these loans.

Several of the small member banks operating with very limited earnings spoke of their inability to obtain exchange income under national charters. One national bank has applied for a State charter in order to obtain the income which in that instance is estimated to be upwards of \$1,000 per year. A few officers of nonmember banks stated that their banks would be members if it were not for the exchange income problem.

#### KANSAS CITY

In November, 74 banks were visited, 25 of which are member banks and 49 nonmembers.

The most optimistic parts of Nebraska were found in the irrigated regions where crops have been very good. In the Loup River district new irrigation projects are being opened and bankers are

quite optimistic about the possibilities of the sugar-beet industry. While they recognize that growers make little or nothing from raising beets, they feel it will bring in outside capital and increase employment and population. In the western part of Nebraska it is reported that hybrid corn produced from two to four times as much as the old varieties. A few bankers were found who have South American bonds that were charged off long ago. These bankers are hopeful that the war will help these bonds and that there will be some nice recoveries. In southwestern Nebraska some bankers reported that they make loans to only those farmers who use horses. One banker said that the FSA was loaning money a few years ago to farmers in this dry land farming territory, for the purchase of tractors and machinery, but experience has shown that it is not good business. Therefore, it is now lending only to farmers who use horses or mules for farm power.

The wages and hours question continues as a live matter of discussion among bankers. This is especially true of small banks in Kansas. In small towns the banker sees the stores, filling stations, and other types of local activities untouched by the law and wonders why his little bank is essentially different. A few cases were found where bankers' sons are graduating from the university and these boys would like to work in the bank for a time without compensation while learning the banking business. Bankers are irritated when they find that such a mutually satisfactory arrangement is not permitted.

Some banks are going to refuse to help farmers make out their applications for corn loans, while others are expecting to make a charge for this service. Until recently these loans were made at 4 per cent, the bank carrying the loan getting 2-1/2 per cent, but effective November 1 the CCC renewal rate to farmers is 3 per cent and the bank will get 2 per cent. Most bankers feel that this rate is unprofitable as the loans are small and a great many of them must be made in order to get any volume. Because banks feel that the 2 per cent rate is unprofitable, they expect either to refuse to help farmers or to make a charge for the service.

#### DALLAS

During the month of November 19 banks were visited, of which 16 were member banks and 3 nonmember banks.

All member banks and three nonmember institutions in North Louisiana were visited by the officers.

Interest in the subject of membership in the System is almost nil among the nonmember banks in this section. Exchange charge revenues

account for this situation. Out of a total of fifty-five nonmember banks in North Louisiana, only two are on the par list. The president of one non-par bank, however, expressed the wish that Congress would enact a law requiring all commercial banks in the United States to become members of the Federal Reserve System.

#### SAN FRANCISCO

In November 61 banks were visited, of which 48 were members and 13 nonmember banks.

#### Ventura County, California

Construction activity so far this year has been maintained on very satisfactory levels, with total building permits for the principal cities of the county continuing to reflect the general increase in building which had its inception in 1934.

Citrus growers generally will receive less net returns for their fruit this year than last, with but few operators realizing profits from operations.

#### Southwestern Idaho

Fall collections from agricultural operators are generally considered favorable with a relatively small amount of carry-over in prospect. Farm production is reported normal, except seed tonnage in the Twin Falls area, which is under average on account of pest invasion.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

November - 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	32	1	33	4	<u>1/</u>	<u>1/</u>	<u>1/</u>
New York	151	57	208	13	2,900	1	62
Philadelphia	67	29	96	2	850	1	50
Cleveland	147	52	199	2	690	3	120
Richmond	39	20	59	5	1,007	-	-
Atlanta	68	36	104	7	1,305	3	257
Chicago	5	10	15	4	2,290	3	900
St. Louis	85	108	193	9	1,102	2	375
Minneapolis	43	41	84	6	1,096	2	331
Kansas City	25	49	74	2	487	1	120
Dallas	16	3	19	-	-	1	125
San Francisco	48	13	61	22	2,530	4	496

1/ Not reported.